

Chair

Cabinet Committee on State Sector Reform and Expenditure Control

Future monitoring of the Accident Compensation Corporation and Housing New Zealand Corporation

Proposal

- 1 This paper outlines a recent decision by relevant Ministers to transfer monitoring of the Accident Compensation Corporation (ACC) and Housing New Zealand Corporation (HNZC) from the Ministry of Business, Innovation, and Employment (MBIE) to the Treasury. It seeks Cabinet agreement for the transfer to occur on 30 November, for an associated fiscally-neutral transfer of funding, and for associated decisions regarding monitoring the Tamaki Redevelopment Company.

Background

- 2 In April 2012, Cabinet directed the State Services Commission (SSC), in consultation with MBIE and the Treasury, to report back to respective Ministers by 31 August with further advice on the merit and implementation issues of transferring responsibility for financial monitoring of HNZC and ACC to the Treasury, while ensuring adequate connections to the policy role of the new Ministry and the monitoring of non-financial performance of those agencies [CAB Min (12) 13/9].
- 3 Monitoring of HNZC and ACC has been problematic, particularly in terms of the governance relationships and understanding and managing the performance cycle. The monitoring departments have had difficulty attracting staff with the appropriate senior experience in working with boards as well as the sophisticated financial analytical skills required to effectively monitor and advise on entity performance. In addition, embedding monitoring with policy has led to confusion for boards on which role the monitor has been playing.
- 4 The formation of MBIE has brought together 23 Crown entities which primarily have business enabling, research and regulatory roles – in line with MBIE’s overall role. ACC and HNZC differ from other MBIE entities in that their combination of service delivery activity and financial management is significantly more complex. They also differ in their focus on delivering social services that impact on vulnerable people.

Comment

The future monitoring of ACC and HNZC

- 5 Both ACC and HNZC attract high public interest and have significant asset bases and risky cash flows that can impact substantially on the Crown’s balance sheet. The combined assets of these two Crown entities are over \$37 billion. To effectively deliver their social services they must be enabled by strong financial management. Assurance on their performance in both service delivery and financial management is of interest to both their responsible Ministers and to the Minister of Finance.
- 6 On 13 August 2012, the Minister of Finance, Minister for Economic Development, Minister for ACC and Minister for Housing (joint Ministers) met to consider draft advice on monitoring arrangements prepared by SSC, in consultation with MBIE and the Treasury. Officials had identified three options for the future monitoring of ACC and HNZC:

- Option 1: MBIE lead, with support on financial/performance monitoring from Treasury, specifically the Crown Ownership and Monitoring Unit (COMU)
 - Option 2: joint MBIE/Treasury monitoring
 - Option 3: Treasury (COMU) lead, with a Memorandum of Understanding (MoU) setting out the relationship with MBIE as policy lead.
- 7 Officials advised that the third option (with Treasury as lead) provides the best fit with the capability requirements for the monitoring task for ACC and HNZN. This is because (inter alia):
- the core capabilities required for the monitoring task are largely available within COMU but would need considerable development over time within MBIE
 - this option will allow critical capability and capacity for monitoring service delivery entities with very large balance sheets to be built in one place (improving staff attraction and retention)
 - MBIE can focus on the development of its monitoring capacity for its 21 other Crown entities (around enabling business and revenue growth via science, trade development, regulation etc)
 - the policy and monitoring relationships with the entities will each have a clear lead and clear protocols.
- 8 Joint Ministers agreed to option three – that the monitoring of ACC and HNZN should be undertaken by Treasury (COMU), subject to the development of an MoU that satisfactorily articulates the respective roles of MBIE and the Treasury and establishes the basis for consultation / collaboration between the Treasury (COMU and Vote teams) and MBIE on areas of common interest. Ministers' agreement to the transfer was confirmed in writing on 30 August 2012.
- 9 MBIE will continue to provide policy advice to the responsible Ministers for ACC and HNZN respectively. The Treasury (COMU) will carry out the full monitoring task (including appointments and governance relationships, performance monitoring, and issues management) for the responsible Ministers, and will provide advice on the balance sheet interest to the Minister of Finance.

Timing

- 10 Officials recommend that handover of monitoring responsibilities takes place on 30 November 2012, in time for monitoring second quarter entity reporting and to fit with MBIE staff transition processes.
- 11 A Cabinet decision is desirable as soon as possible to fit with staff consultation processes on detailed MBIE design, and for Treasury to begin to give effect to the decision in time to assume monitoring on 30 November 2012. Once the new monitoring arrangements have been announced, COMU will undertake to assemble / recruit a highly capable team with the mix of relationship, financial and non-financial monitoring skills to monitor these entities.

Tamaki Redevelopment Company

- 12 A previous Cabinet decision indicated that monitoring of the Tamaki Redevelopment Company (TRC) would be the responsibility of MBIE, pending decisions on the future monitoring of HNZN [SOC Min (12) 9/3]. This implies that if monitoring responsibility for HNZN shifts to the Treasury, then monitoring responsibility for TRC should also shift to the Treasury.
- 13 This paper seeks confirmation that monitoring for TRC should also shift to the Treasury. TRC board appointment processes are currently under way. MBIE will continue these,

in consultation with COMU. Subject to agreement, the monitoring of TRC will also transfer from MBIE to the Treasury (COMU) on 30 November 2012.

Impact on staff

- 14 Implications for existing staff will be managed as part of the processes required to manage staff change within MBIE. The appointing chief executive retains the right to specify the competencies required for positions, and to appoint only those persons deemed suitable. COMU will undertake its own recruitment to ensure appropriate skill sets and team fit specifically for the new monitoring task (ie existing staff will not automatically transfer, but may apply for advertised roles). It is expected that a small number of highly capable staff will be required.

Implementation monitoring

- 15 I propose that SSC assess the implementation on a six-monthly basis, and report to Ministers after 18 months of operation to confirm that arrangements are working as intended.

Consultation

- 16 The Treasury and MBIE were consulted by SSC during the development of this paper. The Department of the Prime Minister and Cabinet was informed.

Financial implications

- 17 The appropriations for monitoring ACC and HNZN in 2012/13 are \$714,000 and \$647,000 respectively. On a full-year basis this totals \$1.361 million, but for the first year on a seven month pro-rata basis (from December 2012 to June 2013 inclusive) the total is \$0.794 million. The HNZN figure includes provision for monitoring Wellington City Council housing grants.
- 18 A fiscally-neutral transfer of operating funding from Vote ACC and Vote Housing to Vote Finance is proposed to give effect to the transfer of monitoring of ACC and HNZN from MBIE to the Treasury.
- 19 MBIE will meet any restructuring costs, for example in the event of staff redundancies, and the Treasury will meet the upfront costs of building capability ahead of the transfer. However, these costs are expected to be minor.
- 20 Funding for monitoring of TRC by the Treasury is included in the transfer of funding outlined above. No additional funding is being provided for that purpose.

Human rights implications, Legislative implications

- 21 There are no human rights or legislative implications of this proposal.

Regulatory impact analysis

- 22 There are no regulatory impact implications arising from this proposal, which involves a change in the administrative arrangements of government.

Publicity

- 23 The Chief Executive of MBIE is discussing with responsible Ministers an appropriate sequence for communications to occur with the ACC and HNZN boards and with MBIE staff. The transfer is being factored into the MBIE consultation on its detailed design. I intend to release this Cabinet paper on the SSC website, subject to fit with related Ministerial announcements. At the appropriate time, COMU will include information on its new responsibilities on its website and in its recruitment advertising.

Recommendations

24 It is recommended that the Committee:

- 1 **note** that on 30 August 2012, the Minister of Finance, Minister for Economic Development, Minister for ACC and Minister for Housing agreed that the monitoring of the Accident Compensation Corporation (ACC) and Housing New Zealand Corporation (HNZC) should be transferred from the Ministry of Business, Innovation, and Employment (MBIE) to the Treasury
- 2 **agree** that the transfer of monitoring of ACC and HNZC to the Treasury take place on 30 November 2012, in time for second quarter monitoring and to fit with MBIE staff change processes, subject to the timing of these decisions
- 3 **note** that, at the direction of responsible Ministers, work is under way by officials from MBIE and the Treasury, in conjunction with the State Services Commission (SSC), to develop a Memorandum of Understanding (MoU) to ensure effective coordination on policy and monitoring for ACC and HNZC by 31 October 2012 (for agreement by the Ministers of Finance, Economic Development, ACC and Housing)
- 4 **note** the previous Cabinet decision that monitoring of the Tamaki Redevelopment Company will be the responsibility of MBIE pending decisions on the future monitoring of HNZC [SOC Min (12) 9/3 refers]
- 5 **agree** that, along with ACC and HNZC, monitoring of the Tamaki Redevelopment Company be undertaken by the Treasury as from 30 November 2012
- 6 **approve** the following fiscally neutral adjustments to give effect to the decision in recommendation 2 above, with no impact on the operating balance:

	\$m – increase/(decrease)				
	2012/13	2013/14	2014/15	2015/16	2016/17 & Outyears
Vote ACC Minister for ACC Departmental Output Expense: Policy Advice and Related Outputs MCOA Crown Entity Monitoring (funded by revenue Crown)	(0.417)	(0.714)	(0.714)	(0.714)	(0.714)
Vote Housing Minister of Housing Departmental Output Expense: Policy Advice and Related Outputs MCOA Housing, Ministerial Servicing and Performance and Monitoring (funded by revenue Crown)	(0.377)	(0.647)	(0.647)	(0.647)	(0.647)
Vote Finance Minister of Finance Departmental Output Expense: Crown Company Monitoring Advice to the Minister for State-Owned Enterprises and Other Responsible Ministers (funded by revenue Crown)	0.794	1.361	1.361	1.361	1.361
Total operating	-	-	-	-	-

- 7 **agree** that the proposed changes to appropriations for 2012/13 above be included in the 2012/13 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply
- 8 **note** that Treasury will meet departmental capital costs associated with transfer of the monitoring functions from its existing balance sheet in the first instance and, if necessary, seek any necessary operating to capital swap for this purpose through the usual baseline update process
- 9 **note** that any costs associated with the transfer of the monitoring functions, for example staff redundancy costs or building capability before the transfer date, will be met from baselines of MBIE and the Treasury respectively
- 10 **note** that SSC will review the implementation of the transfer of monitoring on a six-monthly basis and report to relevant Ministers after 18 months of operation to confirm that arrangements are working as intended.

Hon Dr Jonathan Coleman
Minister of State Services

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