

Executive Leadership Team Issues Paper



PREVENTION CARE RECOVERY.

Te Kaporeihana Āwhina Hunga Whara

To **Executive Leadership Team**

From [REDACTED]

Via [REDACTED]
Acting General Manager, Strategic Policy and Research

Date **2 March 2009**

Subject **Subsidised Employment – Agreement in Principle**

Status **Decision** **Information**

1 Purpose

- 1.1 The purpose of this paper is to seek agreement in principle to subsidise employment for clients who have Long Term Weekly Compensation claims, aiming in the first instance at clients who have been in receipt of weekly compensation three or more years.

2 Recommendations

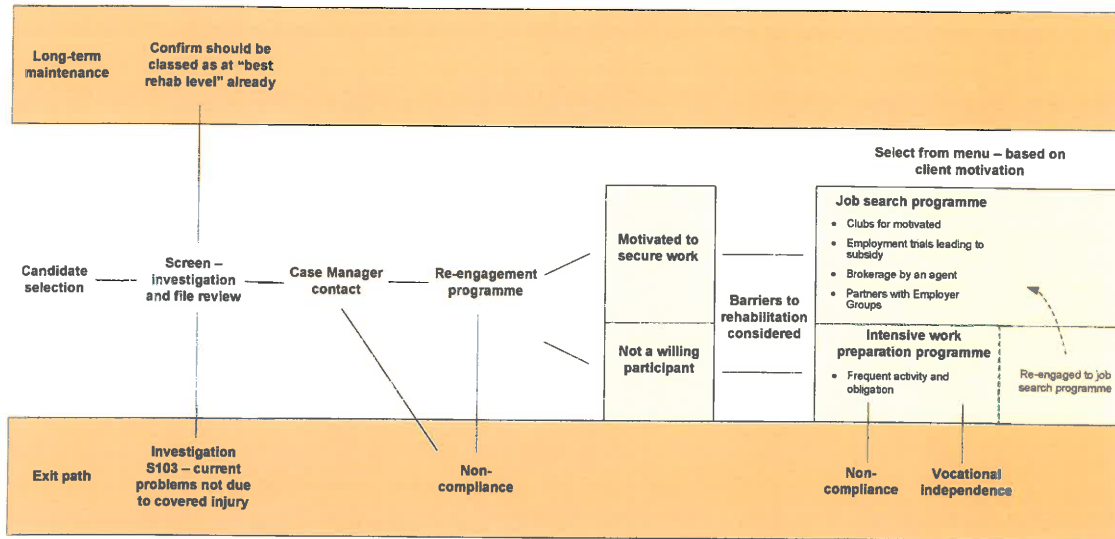
- 2.1 It is recommended that the Executive Leadership Team:
- (a) Agree, in principle, to subsidise employment for clients who have Long Term Weekly Compensation claims, initially with a subset of clients who have been in receipt of weekly compensation for three or more years.
 - (b) Note that subject to agreement in principle, Policy will provide options to ELT for an employment subsidy by 30 March 2009.

3 Case for change for employment subsidies

- 3.1 As part of the new Service Delivery Model, work is currently underway to establish a new approach to managing Long Term Weekly Compensation (LTWC) claims, and in particular, clients who have been in receipt of weekly compensation for more than 3 years. The overall purpose of this approach is to return clients to work and independence, which will ultimately reduce Scheme liability¹. To support this work, a range of services and initiatives are being considered, including subsidising employment, as illustrated in the diagram over leaf.

¹ ELT Issues paper: Strategy for the Future Management of Long-Term Claims, 16 February 2009 refers.

Long Term Claims Management



3.2 Past experience shows that clients who have been on the Scheme for more than 3 years have difficulties returning to work unless supported by targeted interventions. One intervention that has been shown both in New Zealand and overseas to help clients who are motivated to return to work is a time-limited employment subsidy.

3.3 Employers can be unwilling to employ LTWC clients who are either not conditioned for a return to work or are not fully productive. Subsidised employment could encourage employers to take on clients who have been out of work for some time. A subsidy would effectively recompense employers for employing clients who might not be as productive as an experienced and conditioned worker who is employed in the same role.

3.4 The right type of subsidised employment has the potential to be of benefit to:

- clients by re-engaging them in the workforce, and assisting them to return to vocational independence and become less dependent on ACC
- employers by compensating them for the additional time required for the employee to be fully productive
- ACC by reducing duration on the Scheme, leading to a reduction in weekly compensation costs and liability, or if the client remains on the scheme, reducing the amount of weekly compensation payable each week under abatement provisions.

3.5 Subsidised employment is most likely to be successful when:

- the client is conditioned, willing and motivated to work
- it is used in conjunction with capacity building initiatives²

² Such as training, job clubs etc.

- employers have work available in the client's area that is suitable for the client's skills, abilities and experiences.
- 3.6 For a subsidy to be most cost effective for ACC, the market value of the work being undertaken should be roughly the same as the client's pre-injury earnings.
- 3.7 Subsidised employment is proposed as one of several tools available to case managers under the new service proposal for LTWC claims. A subsidy alone is unlikely to be successful and would work best alongside, for example, a work capacity building programme³. Where LTWC clients fail to re-engage with vocational rehabilitation, non-compliance and, if practicable, Vocational Independence provisions will be initiated by case managers. Further work will be done to ensure the fit between subsidised employment and current or proposed vocational rehabilitation services, as well as Vocational Independence provisions.
- 3.8 After receiving weekly compensation for 5 years, clients are almost fully factored by ACC's actuaries as being likely to remain on the Scheme until they reach the New Zealand Superannuation Qualifying Age. To stem the flow of claims moving into the 5 year + category, targeting clients who have been on the Scheme for three or more years is likely to have the greatest impact in terms of reducing liability.
- 3.9 If subsidised employment was made available to all clients who had been in receipt of weekly compensation for more than 52 weeks, an initial indication from the Service Delivery Model project team suggests the potential pool of suitable clients would be approximately 3,000.
- 3.10 The proposed target group would therefore be a small subset of clients who have been in receipt of weekly compensation for three or more years. For this group, in most circumstances, if subsidised employment can achieve a return to work, then it can be considered a cost-effective intervention. Clients in this group are likely to have some capacity for work but this needs to be clearly demonstrated by a work trial or actual employment offer to be assessed as Vocationally Independent.
- 3.11 Subsidised employment will tend to be less cost effective for clients who have been in receipt of weekly compensation for between 52 weeks and 3 years, as up to 10% of this group typically cease receiving weekly compensation without the need for a subsidy. However, if this intervention is successful for LTWC clients who have been on the Scheme for more than three years, it could be broadened to include the wider group at a later date.

4 Context

ACC's current situation

- 4.1 ACC currently provides a range of vocational rehabilitation to clients who have been in receipt of weekly compensation for more than 52 weeks. However, ACC's Long Term Claims Units are primarily designed to assess vocational independence once rehabilitation is complete, not necessarily to secure employment.

³ Evidence to date on the working and effectiveness of Active Labour Market Policies in New Zealand
Johri et al, report written for Department of labour and Ministry of Social Development, Sept 2004

- 4.2 ACC currently has no organisation-wide capacity to deliver intensive vocational rehabilitation to long-term clients with the primary aim of returning clients to work. This will be a key focus of the proposed new service delivery model for LTWC claims.

Supported Employment under the National Serious Injury Service (NSIS)

- 4.3 The NSIS initiated a Supported Employment trial for seriously injured clients in October 2007, which was rolled out nationally in July 2008. In total there have been 118 clients referred to the Supported Employment service to date, although an analysis of the uptake of the subsidy has not yet been undertaken by NSIS. This service is specifically designed for clients who require significant support to participate in employment, due to barriers caused by the serious nature of their injury (usually a brain injury). The service was established to improve ACC's return to work (RTW) rate for seriously injured clients, which compared unfavourably to other countries⁴.
- 4.4 A component of Supported Employment is a subsidy paid to employers to provide an incentive for them to take on clients who have been out of work for a while and may have additional needs. ACC pays employer subsidy monies to the provider (e.g. Career Moves) via a contract for vocational rehabilitation services. The provider finds the work placement, and then pays the subsidy to the employer. Once the employer is paying wages to the client then weekly compensation is abated. The subsidy monies form part of a package of vocational rehabilitation that can also include development or modification of a CV and an individualised career plan.
- 4.5 Under NSIS's Supported Employment programme, the subsidy available is \$5,850 for the first 6 months, which lowers to \$2,925⁵ for the subsequent 6 months. The subsidy is pro-rated depending on the number of hours the client works. The payment is made to the vocational rehabilitation provider on a monthly basis.
- 4.6 Legal Services' opinion was sought before the trial commenced, and in its view the employment subsidy meets the purpose of vocational rehabilitation as set out in section 80 of the Injury Prevention, Rehabilitation, and Compensation Act 2001 (IPRC Act) in that it is clearly offered with the view of helping the client obtain employment or acquire vocational independence. Therefore, the payment of a subsidy in appropriate cases could reasonably be seen as part of the cost of supplying vocational rehabilitation by providing the client with a support service to assist them with transitioning into employment and to address any particular barriers that may exist with potential employers.
- 4.7 This service is more about achieving sustainable employment outcomes for clients with serious injury than achieving full independence and stopping weekly compensation, as it is accepted that seriously injured clients will likely need support from ACC for the rest of their lives.

⁴ 30% RTW in New Zealand compared to 60% in Australia and 72% in Switzerland

⁵ 25% of the minimum wage for 26 weeks.

Obtain Employment trial

- 4.8 The Obtain Employment service targets clients who have lost their job, and enables vendors to provide whatever services are required in order for clients to achieve employment or complete their rehabilitation to a stage where they are ready to engage in employment. The outcome of the contract is permanent, sustainable employment, either part-time on reduced abatement or full-time employment, or work-readiness. Clients can then proceed through the Vocational Independence process.
- 4.9 Within the Obtain Employment contract, there is already flexibility for vendors to pay employer subsidies if that will achieve the required return-to-work outcome. This is managed within the cost of the programme and therefore the vendor has an incentive to ensure that the subsidy is targeted to employers that are likely to continue with the employment.
- 4.10 The Obtain Employment service is currently being trialled in the lower South Island. However, due to current economic and labour market considerations the nationwide launch has now been postponed.

Work and Income

- 4.11 Clients who are being supported into employment can access funds of up to \$16,900 per annum through Work and Income. This funding can include a wage subsidy, training, worksite modification and other supports.
- 4.12 'Skills Investment' is Work and Income's wage subsidy programme. The programme makes a temporary contribution to clients' wages and training to enable them to access and maintain employment. The primary aim of Skills Investment is to ensure that disadvantaged job seekers gain skills employers need to help the job seeker achieve unsubsidised, sustainable employment.
- 4.13 Work and Income work brokers (specialised in-house roles) and employers agree to the investment (up to a maximum of \$380 per week) that is required to increase the skills of the person in relation to the entry level requirements of the job. The expected outcome of the Skills Investment is that the person retains the job when the subsidy ends. The subsidy can be paid for up to 52 weeks, as long as the total subsidy amount is kept within the annual maximum of \$16,900.

International examples

- 4.14 A number of international workers' compensation schemes have introduced intensive vocational rehabilitation services for clients who either exceed or are at risk of exceeding 52 weeks duration. These services address vocational and psychosocial factors and are focused on achieving a return to work (not simply achieving an exit). Many of these programmes include an employer subsidy or supported employment component. Appendix 1 summarises employer subsidy schemes in various international jurisdictions.
- 4.15 The international evidence for the effectiveness of employer subsidies is mixed. However evaluations in several OECD countries have shown that wage subsidy

programmes have a greater impact than training programmes or direct job creation measures (Martin and Grubb 2001)⁶.

5 Factors to consider

Economic conditions

- 5.1 The recent global recession has meant redundancies on a scale not seen for many years in New Zealand. The unemployment rate at December 2008 was 4.6%, the highest it has been since 2003, and it is predicted to keep rising, potentially to 6.5% by mid-2010⁷. Sectors with relatively unskilled labour including manufacturing and retail have been particularly badly hit by job losses. In this environment it may be challenging to place clients into employment, with or without a subsidy.

Positioning of ACC and Work and Income in employment subsidy programmes

- 5.2 If ACC were to introduce subsidised employment, it would place the organisation into direct competition for job placements with other work brokerage organisations, including Work and Income. It is likely that clients of both organisations will be looking for placement in low-skilled, low-wage industries, where there are a limited number of positions available. Work and Income has strong organisational capability in work brokerage, and has a network of employer relationships already in place. They also have a reasonably high subsidy (up to \$380 per week) they can offer employers for job placements. This suggests that without a similar level of subsidy, ACC clients would struggle to compete with Work and Income clients for job placement.
- 5.3 Furthermore, ACC clients are eligible for Work and Income subsidies, although anecdotal evidence suggests that in practice, ACC clients are low priority for Work and Income case managers. However, if ACC establishes a subsidy, processes will have to be put in place to ensure employers are not 'double dipping' and receiving a subsidy from each organisation for the same client.
- 5.4 One possible solution is for ACC to consider "contracting" with Work & Income for work brokerage to make use of their existing networks.

Cost effectiveness of subsidising employment

- 5.5 Financial modelling of various employer subsidy variations indicates that for clients in the 3 year + category, any approach is cost-effective if the employer ultimately offers full-time employment and pays a full-time wage. This is because weekly compensation is reduced at a level in excess of the subsidy that would not otherwise occur. In addition, if the client achieves full-time employment, this will have a positive affect on Scheme liability.

⁶ Cited in Evidence to date on the working and effectiveness of ALMPs in New Zealand report by Department of Labour and Ministry of Social Development, September 2004

⁷ Economic and Fiscal Forecasts December 2008, NZ Treasury

- 5.6 The short-term cost effectiveness proposition, however, becomes weaker in the event that the client is offered part-time hours, or the full-time wage is considerably less than the client is receiving in weekly compensation. In these two cases, ACC remains liable to pay a residual amount of weekly compensation. Particularly under a mechanism in which a proportion of weekly compensation is transferred to the employer, ACC may incur an additional cost/increase to liability due to the generous exemptions under the abatement rules. It seems likely that these two scenarios will affect a proportion of LTWC clients eligible for a subsidy. The cost effectiveness proposition may still be beneficial if the part-time work leads to full-time work within a certain timeframe.
- 5.7 This risk could be mitigated by establishing tight rules over the circumstances in which a part-time offer of work is eligible for a subsidy – i.e. only when a cost effectiveness calculation is applied to the client's circumstances.
- 5.8 For subsidised employment to have the best return on investment, the job offer must be permanent – i.e. the job must last longer than the subsidy period. This must be agreed between ACC and the employer, and if it does not eventuate, ACC should have the right to recover part of the subsidy.

90 day probation

- 5.9 It is unclear what ramifications the new 90 day probation law will have on Work and Income's wage subsidy programme. There is potential for small employers to take the subsidy for 90 days then dismiss the client citing 'performance issues'. More work will need to be done to explore this issue, including whether ACC has the ability to withhold any subsidy payments until after the 90 day period has passed, or whether ACC should look at retention payments in addition to the subsidy.

6 Proposal - developing an employment subsidy

- 6.1 It is proposed that ACC develop subsidised employment for clients in the LTWC claim pool who have been receiving weekly compensation for three or more years.
- 6.2 It is assumed that clients eligible for subsidised employment would already have undergone a work re-engagement programme to mitigate any motivation issues, determine their ability levels and identify barriers to return to work. It is also assumed that payment of a subsidy follows a work trial of 3-12 weeks where ACC continues to pay full weekly compensation. The full value of the subsidy to the employer will include the full weekly compensation that is paid for the period of the work trial.
- 6.3 If the proposal is agreed in principle, a detailed paper outlining options and financial impact will be provided on 30 March 2009.
- 6.4 The table below outlines the risks and benefits of the proposal:

Benefits	Risks	Risk mitigation
Subsidised employment can clearly establish that the client is 'vocationally	For the model to be cost effective, the employment offered needs to well in excess of the subsidy offered (because of	Each case needs a cost effectiveness decision before agreeing to the subsidy

Benefits	Risks	Risk mitigation
independent'	ACC's abatement exemptions).	level.
Has the potential to reduce the duration of LTWC clients on the Scheme, which would have a corresponding impact on the liability	Potential for a subsidy to be taken advantage of by employers i.e. firing clients once the period of subsidy has elapsed and hiring a new subsidised worker	Implement monitoring system, and establish strong relationships between case managers/work brokers and employers. Maintain employer blacklist or develop preferred employers. Arrange subsidy payments at intervals to encourage retention.
Will result in better client outcomes (e.g. re-engagement with employment, reduced dependency on the Scheme)	ACC currently has limited work brokerage capability	Develop or outsource capability
May save on cash costs depending on the specific mechanism and amount of the subsidy (i.e. the subsidy amount is less than ACC would have been paying in weekly compensation)	Will place ACC in direct competition with Work and Income who are better placed in work brokerage capability	
Will enable ACC clients to have more traction in the labour market.	Employers hire the subsidised client at the expense of another job seeker who would have gained the job without assistance. This can lead to distortion of the labour market.	
Allows ACC's long term clients a similar level of support to that available to Work and Income clients.	Appropriate jobs are unavailable in the client's area	
	Clients are placed into unsuitable work and return back into the Scheme - a subsidy has been paid but no permanent return to work has been achieved	Make sure job placements are within client's assessed capabilities. Only commit to paying subsidy after working relationship has been established. Consider retention payments.
	Media risk that ACC could be seen as 'pushing people back to work and off the books'.	Communications plan outlining the holistic nature of the LTWC service, including information on the benefits to clients for returning to work.
	Risks around operational capacity to implement a subsidy given the time required to find a job placement and the ongoing management	Develop or outsource capacity.

7 Financial

- 7.1 A cost benefit analysis of subsidy mechanism options will be provided in the detailed paper, subject to ELT's decision in principle to progress subsidising employment for LTWC clients.

8 Next steps

- 8.1 Policy will develop options for a subsidy mechanism, including cost benefit analysis of each, and submit a paper with recommendations on 30 March 2009.
- 8.2 Consideration will also be given to:
- the fit with current or proposed vocational rehabilitation services as well as Vocational Independence provisions
 - the amount and duration guidelines for a subsidy
 - criteria for eligibility.

9 Consultation

- 9.1 Operations, Legal Services and Levy and Scheme have been consulted and support the proposal in principle, with feedback incorporated into the paper. Health Purchasing and Provider Relationships have noted that the addition of another vocational rehabilitation service is not ideal, but may be required in the current environment to meet the specific needs of the new approach to Long Term Weekly Compensation claims.


Policy Analyst

Appendix 1 – International employer subsidy examples

Jurisdiction	Details	Subsidy level
<p>South Australia - Job Seeking Incentive Program – ‘Corporate Champions’</p>	<p>Administered by Employers Mutual. The aim of this program is to provide genuine work opportunities for job seeking, high risk and long term injured workers who have at least 20 hours capacity per week. A pilot commenced in December 2007 with a number of high profile ‘Corporate Champion’ employers, both registered and self insured, employing injured workers who are ready to return to work.</p>	<p>incentive payments will be paid to the employers at key milestones 6, 12 and 18 months from commencement of worker in the job</p>
<p>South Australia - Re-employment Incentive Scheme for Employers (RISE)</p>	<p>All employers are eligible to participate in RISE.</p> <p>Any worker who is receiving income maintenance payments and is unable to return to their pre-injury employer, but who has a capacity to work, is eligible for incentive payments to be made to an employer that can provide suitable employment.</p>	<p>RISE benefits include:</p> <ul style="list-style-type: none"> • Reimbursement to employers of 75% of gross wages for the first three months of employment, dropping to 40% for the second three months • A retention bonus of 10% of gross wages paid (up to a maximum of \$2000) if the employment is sustained beyond 12 months • Protection from normal liability to pay the first two weeks’ income maintenance for that worker, if they suffer an aggravation of the pre-existing condition (up to two years) • an allowance of up to \$1,000 for appropriate training; and reasonable workplace modification cost
<p>Victoria - WorkCover Incentive Scheme for Employers (WISE)</p>	<p>An injured worker can access WISE if they have a capacity for work and can work at least 15 hours per week and are able to complete the WISE placement before they reach retirement age.</p> <p>Most employers can access WISE. An employer offering a WISE placement must employ the worker under the same employment conditions as any other worker. Payments made to a WISE employer as a wage subsidy are not intended to constitute the worker’s entire salary.</p>	<p>The WorkCover agent makes the WISE payments on receiving and verifying relevant Employer Payment Request forms. A WISE employer can receive up to \$14,860 for a 12 month WISE placement payable.</p> <ul style="list-style-type: none"> • At Week One, the Work Commencement (a variable fixed fee up to \$2000 based on the hours nominated to be worked); • At Weeks 12 & 24, the Wage Subsidy (amounts based on worker’s weekly gross earnings up to a maximum amount of \$8,860)

ELT Issues Paper: Subsidised Employment – Agreement in Principle

Jurisdiction	Details	Subsidy level
		<ul style="list-style-type: none"> • At Weeks 45 & 52, the Work Stability (a variable fixed fee up to \$2000 based on the hours actually worked).
Oregon, USA – Preferred Worker Programme	This program allows injured workers to offer hiring incentives to Oregon employers, including wage subsidy, worksite modification and premium exemption. Injured person has to find the job themselves, rather than a placement being found for them.	Wage subsidy means the employer receives a 50% reimbursement from the state on the workers wages for six months.

Executive Leadership Team Issues Paper



PREVENTION. CARE. RECOVERY.

Te Kaporeihana Āwhina Hunga Whara

To **Executive Leadership Team**
From [REDACTED]
Policy Analyst
Via [REDACTED]
General Manager, People and Business Services
Date **1 June 2009**
Subject **Subsidised Employment for Long Term Clients**
Status **Decision** **Information**

1 Purpose

- 1.1 This paper seeks agreement to a proposal to subsidise employment for clients who have been in receipt of weekly compensation for 2.5 years or longer. The proposal sits under the Service Delivery Model (SDM) project as part of a new approach to managing Long Term Weekly Compensation (LTWC) claims.

2 Recommendations

2.1 It is recommended that the Executive Leadership Team:

- (a) Agree that, as part of ACC's liability to provide vocational rehabilitation under section 85 of the Injury Prevention, Rehabilitation, and Compensation Act 2001 (IPRC Act), ACC implements a subsidised employment programme targeted at clients in receipt of weekly compensation for 2.5 years or longer, who:
- are motivated to return to work but have barriers to employment that may be overcome by payment of a subsidy; and
 - have some capability for work but are only ever likely to be capable of fewer than 35 hours work per week and, therefore, are not candidates for vocational independence; or
 - are not immediate candidates for vocational independence, but have the capacity to build up to 35 hours work per week, and because they have been out of work for an extended period, require an actual demonstrated ability to work in order to sustain vocational independence.
- (b) Agree to the following key features of the subsidised employment programme:
- i) a subsidy will only be paid based on there being a demonstrated cost/benefit to ACC, where the total of the subsidy plus abated weekly compensation does not exceed a client's full weekly compensation
 - ii) the job on offer must be permanent
 - iii) the maximum duration for the subsidy period is 12 months

- iv) the maximum subsidy will be the lesser of \$380 per week or 50% of the wage offered by the employer
- v) subsidy payments will be made at intervals at each quarter point of the subsidy period, and will halve in value for the third and fourth payments.
- (c) Agree that the delegation for authorising the subsidy be held at the branch manager level.
- (d) Agree that a monitoring plan of the employment subsidy be developed by the Service Delivery Model project team and monitored at the branch level.

3 Opportunity for improvement

- 3.1 Past experience shows that clients who have been in receipt of weekly compensation for more than three years have difficulties returning to work unless supported by targeted interventions. There is an opportunity for ACC to subsidise employment for LTWC clients as a means of supporting these clients back into the workforce, which will result in better employment outcomes for clients, and a reduction in weekly compensation costs and liability.
- 3.2 The SDM project team estimates that 600-800 clients in the first year could be potential candidates for an employment subsidy.

4 Proposal: employment subsidy

- 4.1 It is proposed that eligible clients would receive a time-limited period of subsidised employment as part of their vocational rehabilitation. The subsidy would be one of a set of tools available to case managers as part of the intensive new service for LTWC. Under the proposal, ACC would pay a subsidy to the client's employer, who would pay wages directly to the client. ACC would pay abated weekly compensation if the client was only able to perform partial duties.
- 4.2 An employment subsidy would only be available for clients who have been in receipt of weekly compensation for 2.5 years or longer. A subsidy targeting this group is likely to be cost-effective on the basis that without the subsidy, these clients would continue to receive weekly compensation and, from a liability perspective, continue to receive weekly compensation until the National Superannuation Qualifying Age is reached.
- 4.3 The proposal would be less cost-effective for clients who have been in receipt of weekly compensation for less than 2.5 years. For these clients other forms of vocational intervention would be more appropriate as it is assumed that weekly compensation will not continue indefinitely. In addition, locking these clients into a long term subsidised employment programme could result in ACC paying a subsidy longer than the client would have been expected to remain on weekly compensation.

Key elements of the proposal

Table 1 – key features of the subsidised employment proposal

Key features of the employment subsidy	Criteria / business rules
Target group	<p>Clients in receipt of weekly compensation for 2.5 years or longer, who have:</p> <ul style="list-style-type: none"> • completed an intensive re-engagement programme as part of the new approach to managing LTWC claims, and are motivated to work • injury and non-injury related barriers such that an employer would be unwilling to employ them without some form of incentive; and either <ul style="list-style-type: none"> ➤ the client has some capability for work but is only ever likely to be capable of fewer than 35 hours work per week (and therefore not a candidate for vocational independence); or ➤ the client is not an immediate candidate for vocational independence, but may be able to build up to 35 hours work per week, and because they have been out of work for an extended period, require an actual demonstrated ability to work in order to sustain vocational independence
Cost-effectiveness test	A subsidy would only be available when the total of the subsidy plus abated weekly compensation does not exceed a client's full weekly compensation
Subsidy duration	<p>The subsidy cannot exceed 52 weeks from the date the client first commences work under the subsidised programme.¹</p> <p>Case managers must consider the length of time the client has already received vocational rehabilitation. All applications for vocational rehabilitation beyond three years are subject to a decision making framework with the delegation held by the Customer Service Technical Support Team</p>
Maximum subsidy payable	<ul style="list-style-type: none"> • Case managers have the discretion to offer an employer a level of subsidy appropriate to the client's circumstances, level of expertise or experience, and regional and industry variations, up to a maximum amount • The maximum subsidy would be \$380 per week, which is aligned to the maximum level paid by Work and Income for its wage subsidy programme • The subsidy can be set at no more than 50% of the weekly wage paid to the client²
Payment intervals for the subsidy	Payments will be made at intervals, with the first payment made to the employer after 90 days from the date the client commenced work. This encourages the employer to retain the client through the 90-day probation period ³ .
Step-downs in the subsidy payable	ACC's subsidy contribution would reduce over time, to reflect the client's increasing productivity, and to reduce the risk of employer dependency on the subsidy.

¹ This is in line with the National Serious Injury Service 'Supported Employment' subsidy, and consistent with similar subsidy programmes in overseas jurisdictions.

² This sends the message to the employer that the ACC contribution is a partial subsidy to compensate the employer for the client's reduced productivity, rather than long-term supported employment.

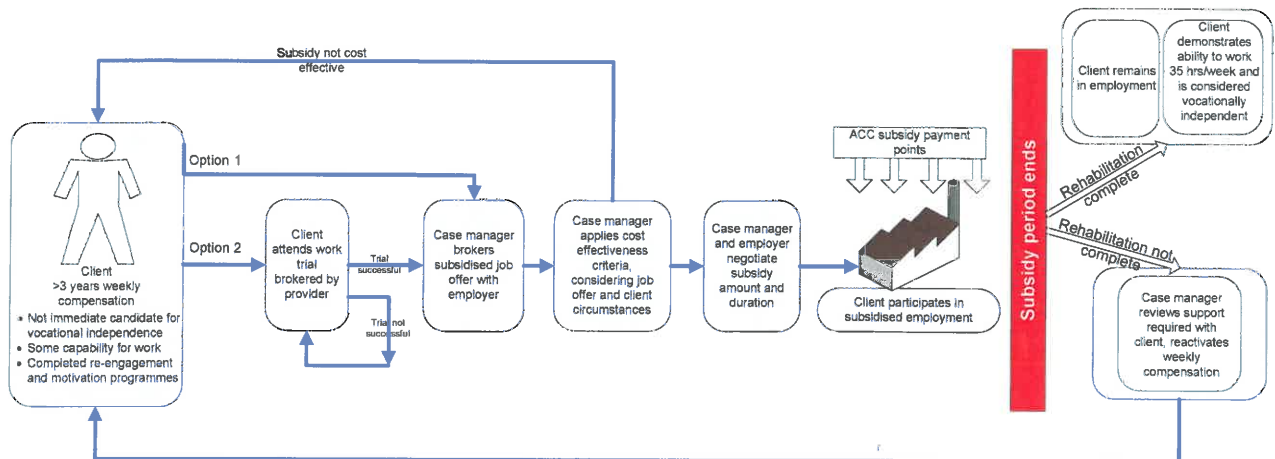
³ The 90-day probation period is only applicable for employers with 19 employees or less. The employer is within their rights to dismiss the client within the 90-day probation period, however, in this case, they will not receive any subsidy.

How the proposal will work

4.4 Figure 1 outlines the proposed process for the employment subsidy. There are two entry points for accessing the subsidy:

- after a client attends a work trial; or
- a case manager or client may source a suitable job through another means.

Figure 1 – proposed process for the employment subsidy



5 Analysis of the proposal

5.1 Analysis of the proposal against evaluative criteria is as follows:

- *Legislative fit* – Legal Services has indicated that the proposal fits within the vocational rehabilitation provisions outlined under the IPRC Act.
- *Cost-effective* – a subsidy will only be available to employers where it is demonstrated that the subsidy (plus any abated weekly compensation) does not exceed full weekly compensation that would otherwise have been paid to the client.
- *Consistency with other ACC initiatives* – payment of an employment subsidy as a vocational rehabilitation entitlement is consistent with the Supported Employment initiative for seriously injured clients, and the Obtain Employment trial. It is also consistent with other changes that form the new LTWC service.
- *Ease of implementation* – does not require any legislative change or major system change. Business rules for the programme will be developed alongside other initiatives as part of the new LTWC service.
- *Resource impact* – moderate impact on resources. There will be increased capacity, through the recruitment of additional case managers to manage LTWC claims. However, there is a risk that administering the subsidy could be time consuming for case managers, which could impact on the management of other claims.

Risks

5.2 A risks and mitigation strategy for the subsidised employment proposal is outlined in Table 2.

Table 2 – risks and mitigation

Risk	Mitigation
Abuse of subsidy by employers - e.g. by firing clients once the subsidy period has elapsed and hiring a new subsidised worker	Establish monitoring of employers at the Branch level. This could include setting up a database of employers who have taken on clients, tracking client employment outcomes, and maintaining an employer blacklist. Case managers would also have to focus on establishing strong relationships with employers. The risk can also be mitigated somewhat by delaying payment to encourage retention of the client
Employers may put pressure on case managers to agree to a high level of subsidy, or one that does not meet ACC's cost-effectiveness criteria	Mitigated by having the delegation for agreeing the subsidy amount rest with the branch manager
Pressure to extend subsidy eligibility to clients with less than 2.5 year's duration on weekly compensation	Ensure eligibility criteria and cost-effectiveness rationale are clearly understood by case managers
Certain industries are not considered by the public to be appropriate recipients of government subsidies	Inappropriate businesses for government-subsidised employment (as specified by Work and Income and listed in Appendix 2) will be included in training material for case managers
Employers receive ACC subsidy plus the Job Support Scheme subsidy from the Ministry of Social Development	Employers taking part in the Job Support Scheme (9 day fortnight) will be ineligible to receive a subsidy from ACC
Co-ordination of subsidy is overly time-consuming for case managers	Ensure that case managers are well supported and have manageable case loads
Employers receive subsidy then dismiss clients during 90-day probation period	The first subsidy payment is withheld until the client is retained beyond the 90-day probation period

6 Financial

- 6.1 The proposals outlined in this paper will have no additional financial implications because a subsidy can only be put in place where it is shown to be cost-effective to the Scheme.

7 Consultation

- 7.1 Operations, Legal Services and the SDM team were consulted, and their feedback incorporated into the paper. Those consulted supported the proposals.


Policy Analyst

Appendix 1 - discarded options

The following options were also considered but discarded:

- **Utilise Work and Income subsidies** – Clients receiving weekly compensation are also eligible for the Work and Income (W & I) Skills Investment subsidy. Under this programme, clients are eligible to receive subsidised employment to a maximum of \$380 per week, up to 52 weeks. Anecdotal evidence suggests that ACC clients are low priority for W & I, and are unlikely to place ACC clients when they have a full caseload of clients. Furthermore, the economic conditions mean that W & I are likely to focus on supporting clients facing redundancy, rather than ACC clients. This option is unlikely to be cost-effective as ACC would have to contract with W & I for the service.
- **Levy discount** – Under this option, the employer pays full wages and ACC provides a levy discount for one year as an incentive for the employer to hire (and retain) the client. Levy discounts form part of the hiring incentives for employers in overseas jurisdictions, such as Oregon, USA. It is unclear whether a levy discount a year down the track would be enough of an incentive for an employer to employ a client. However, this is an option that could be looked at in the longer-term, and potentially built into other levy discount programmes.
- **Contract with a vocational rehabilitation provider to pass a subsidy onto the employer (Obtain Employment model)** – This option would not be cost effective as would incur additional costs to pay the vocational rehabilitation provider. It would also have a negative impact on resources as it does not take advantage of the extra case management capacity being recruited as part of the Service Delivery Model changes.
- **Transfer of weekly compensation where the employer pays wages and seeks reimbursement from ACC through an Employer Reimbursement Agreement** – This option would be too complicated to administer and would not allow for delayed payment to encourage retention. Legal Services indicated that it is not a preferred option.

Appendix 2 - inappropriate industries

The following industries are considered inappropriate for the purposes of the proposed employment subsidy:

- massage parlours and premises for sex workers to operate in
- strip clubs
- gambling
- money lending
- paramilitary services
- speculative services
- multi-level network marketing enterprises (e.g. pyramid selling)
- central and local government, and crown entities[†]

[†] Government bodies should not require a subsidy from another government agency to employ rehabilitated workers.