

---

## PERFORMANCE IMPROVEMENT FRAMEWORK

# **Review of the Accident Compensation Corporation (ACC)**

**DECEMBER 2014**

---

State Services Commission, the Treasury and the Department of the Prime Minister and Cabinet

## **Lead Reviewers' Acknowledgement**

ACC is currently undertaking a considerable change programme and recognised this review as an opportunity to validate the direction taken and identify further opportunities for improvement. We acknowledge the thoughtful and generous input made by ACC staff, the Executive and the Board as we undertook the review.

We appreciate the time that a cross section of ACC's external partners and stakeholders gave us, and their insights were invaluable in reaching our conclusions. We also had the benefit of input from officials from the Department of Prime Minister and Cabinet, the State Services Commission, the Treasury and the Ministry of Business, Innovation and Employment.

**Performance Improvement Framework  
Review: Accident Compensation Corporation**

**State Services Commission, the Treasury, and the Department of the Prime Minister and Cabinet  
Wellington, New Zealand**

**Published December 2014  
ISBN 978-0-478-43427-9  
Web address: [www.ssc.govt.nz/pif](http://www.ssc.govt.nz/pif)**

**Crown copyright 2014**

**Copyright/terms of use**



This work is licensed under the Creative Commons Attribution-Non commercial-No Derivative Works 3.0 New Zealand licence. [In essence, you are free to copy and distribute the work (including in other media and formats) for non-commercial purposes, as long as you attribute the work to the Crown, do not adapt the work and abide by the other licence terms.] To view a copy of this licence, visit <http://creativecommons.org/licenses/by-nc-nd/3.0/nz/>. Attribution to the Crown should be in written form and not by reproduction of any such emblem, logo or Coat of Arms.

# TABLE OF CONTENTS

|  |    |
|--|----|
| Agency's Response                            | 2  |
| The Four-year Excellence Horizon             | 8  |
| Executive Summary                            | 8  |
| Environment                                  | 8  |
| Performance Challenge – Outcomes             | 11 |
| Performance Challenge – Organisation         | 12 |
| What will success look like?                 | 16 |
| Central Agencies' Overview                   | 18 |
| Summary of Ratings                           | 20 |
| Agency Context                               | 22 |
| Results Section                              | 23 |
| Part One: Delivery of Government Priorities  | 23 |
| Part Two: Delivery of Core Business          | 28 |
| Organisational Management Section            | 38 |
| Part One: Leadership, Direction and Delivery | 38 |
| Part Two: External Relationships             | 42 |
| Part Three: People Development               | 46 |
| Part Four: Financial and Resource Management | 48 |
| Appendix A                                   | 51 |
| Overview of the Model                        | 51 |
| Lead Questions                               | 52 |
| Appendix B                                   | 53 |
| List of Interviews                           | 53 |

## AGENCY'S RESPONSE

We would like to thank the reviewers, Murray Horn and David Moore, for undertaking ACC's Performance Improvement Framework (PIF) Review.

Last year, we began a transformation programme to shape a new future for ACC. The PIF Review is timely and provides confirmation that our strategic direction and transformation programme (Shaping Our Future) is focused on the things that will make the most difference to New Zealanders, and highlights areas that would benefit from greater focus (in particular, improving the effectiveness of injury prevention activities and working more collaboratively with our stakeholders).

Our customers expect better service. They want to know that we see them as people, as individuals with specific needs. They want to know that they can trust us to keep their private information safe and to treat them fairly. They want more choice and less effort in how they work with us, and more warmth and transparency in how we work with them.

Our other stakeholders, including providers, also want more from us. They want us to be more collaborative, more responsive and more authentic in our interactions. They want us to trust them.

To deliver on these expectations, we need to make some changes. Building a more customer-oriented ACC will touch nearly everything we do over the next three years as we tackle a range of challenges and opportunities. We are aiming to ensure that:

- New Zealanders understand what we're here to do for them and the unique contribution we make to their way of life. Our communities value the work we do to help them live, work and play safely.
- Injured people know that we see them as individuals and that we understand how their injury is affecting their everyday life. We'll be able to make faster decisions about their claims, pay them faster, and work more closely with them to help them recover.
- We have more trusted partnerships with treatment providers, less paperwork and speedier decisions and payments.
- Levy payers will receive timely and accurate invoices that they understand, have more options for doing business with us and faster resolution of queries. Employers will see the health and wellbeing of their staff as a top priority and that creating a safe workplace is good for business. They'll recognise their role in injury prevention and understand the levies they pay and feel the system is fair.

The increased focus on our customers will not come at the expense of good stewardship and financial sustainability of the Scheme. We agree with the reviewers that these two objectives are not mutually exclusive. Improved performance through better outcomes for our clients, and more efficient and effective systems, processes and partnerships to deliver services will support our objectives to maintain the financial sustainability of the Scheme.

The absence of a competitive environment means we must find suitable benchmarks to be confident that customers would choose ACC. There is a long established market for Third Party Administrators (TPAs) through the Accredited Employer Programme and this provides competitive pressure and benchmarking for the management of work injuries. We have implemented a trial with TPAs to manage non-work injuries with employers who participate in the Accredited Employer Programme. This provides a further benchmarking opportunity and introduces competitive pressure to ACC's case management service for non-work injuries.

The PIF Review has identified other aspects of our core business that need greater attention, in particular our rehabilitation performance, our efforts in injury prevention and how we work with our key stakeholders.

The Board and management are committed to improving ACC for all New Zealanders and delivering on the four-year excellence horizon set out in the PIF Review.

## Improving our customers' experience

We've already taken a number of actions to improve our services and it's pleasing to see that both client satisfaction and public trust and confidence are improving and moving in the right direction.

Opportunities to redesign services have been identified and they are in different stages of implementation. Examples include:

- new integrated service for clients with a sensitive claim (expected to start in late 2014)
- new service needs assessment teams in Hamilton and Dunedin to ensure claims are allocated faster, reflecting their complexity
- agreement of a new spinal cord impairment action plan, with the Ministry of Health, to deliver more consistent and age appropriate services for those suffering spinal cord impairment
- creating a single point of accountability for the quality of clinical advice and clinical decision making
- continued focus on protecting personal information, halving the number of privacy breaches from the prior year.

We continue to report strong financial performance, with a reported surplus for 2013/14 of \$2.1 billion.

Further improvements in our performance are dependent on more significant changes to our technology, processes and capabilities. We will deliver this through the Shaping Our Future transformation programme.

## Shaping Our Future

Shaping Our Future was set up at the end of October 2013 to develop recommendations about how to better meet the needs of our customers and restore public trust and confidence in ACC.

We ran surveys and workshops with more than 5,500 New Zealanders all over the country. They told us they want ACC to be more responsive, more transparent and easier to deal with.

Following six months of research and diagnostics, in April 2014 the case for change was clear. Given the complexity of change (tackling a range of areas including process, technology and organisational capability), we have put in place robust governance arrangements for the programme and completed consultation with the Minister for ACC and other key government stakeholders on the business case. The business case was approved by the ACC Board and noted by Cabinet in July 2014.

The following steps have been taken to date:

### *i. New vision, values and customer experience approaches*

We have introduced our new vision and values to staff and these reflect what our customers told us was important to them. Our people managers have been engaged in a two-day workshop to identify how to integrate our vision and values into their team's work. This will be followed by subsequent sessions with all our staff. We will build on this further in the new year with a new customer service programme.

### *ii. Reshaped executive team*

Putting the customer perspective at the heart of our business to help us deliver a better end-to-end customer experience starts at the top, so the first step was to review responsibilities at the executive level. The creation of a Chief Customer Officer role has lifted the customer perspective to the Executive team. This is a key role to ensure the Executive is united in a common purpose to meet customers' needs and expectations. The new Executive team was operational from 1 September 2014.

### *iii. Selected a preferred technology vendor*

In order to deliver a better experience for customers, and to offer them more choice and less effort in their interactions with us, we need to ensure that our systems and technology enable us to do this. In January 2014, we went out to market to look at options for core systems to improve our ability to serve all our customer groups – claimants, employers and providers. We have a preferred technology vendor and, over the next six months, we will complete the integrated design and planning phase, including commercial negotiations with the preferred vendor. The outcome of this will be an implementation plan for the programme.

## **Maintaining core services and performance during a period of change**

Significant change presents a number of risks that must be well managed. We are committed to maintaining our core service performance over this time of change.

We have created the Executive position of Chief Operating Officer to ensure we continue to deliver good rehabilitation outcomes for our clients. The increased focus on our customers will not come at the expense of good stewardship and financial sustainability of the Scheme.

We have also appointed a Chief Transformation Officer to oversee the change programme and the Chief Transformation Officer is supported by an experienced Programme Director. The programme has strong commitment and investment from the Board and we have focused on putting in place the right governance and assurance arrangements. We have set ambitious targets for the next four years which reflect the benefits we expect the programme to deliver for our customers and stakeholders.

## **Increasing the success of injury prevention activities**

The Review has identified that injury prevention requires greater focus and we agree. Our ability to work with others to prevent injuries occurring in the first place will have positive impacts that go beyond the physical effects on individuals. We know that most injuries are preventable and we need to focus on the activities and drivers that contribute most to injuries occurring.

With support from the central agencies (in particular Treasury and the Ministry of Business, Innovation and Employment), we intend to engage more effectively across government. Working together we will develop a systematic approach to injury that will establish a clear view of what interventions (for example, education, subsidy, regulation, levy setting, enforcement) are best used in each situation, informed by all government agencies with responsibility for the relevant interventions.

Refocusing our effort in injury prevention will take some time, but we are heading in the right direction. The injury prevention investment framework, implemented earlier this year, will ensure injury prevention programmes are prioritised to deliver the best return on investment. However, more needs to be done to take a systemic approach to our wider injury prevention activity (as we have done with our partners in road safety). We need to build our capability to deliver this.

The new legislative framework covering health and safety will provide greater incentives and penalties for employers. We work closely with agencies such as WorkSafe NZ and the Ministry of Business, Innovation and Employment so that we can support employers and employees to operate within a safety culture. This will include an agreed action plan with WorkSafe NZ.

## **Collaborating for success**

As well as clients and levy payers, we have a number of groups and sectors that we interact with: specific provider groups, the wider health sector, government agencies and community groups.

We will become better at listening and learning from our customers and stakeholders (through the wide range of existing mechanisms e.g. complaints, surveys, advocacy groups, direct feedback) and communicate on the actions we take as a result.

The Review recognises that we have made progress over recent years in improving our engagement with other government agencies. But we know there is more we can do. The recent restructure of the Executive created a new role of Chief Governance and Strategy Officer. This established a strategic focus on external stakeholder management and will ensure there is clear oversight and responsibility for improving our engagement with all stakeholder groups.

Our renewed approach to partnering and collaborating with stakeholders will ensure that we work to establish, and achieve, mutual goals and priorities.

The requirements under the Better Public Services programme have been built into our work to ensure we are not operating in isolation from the rest of the sector.

## **Our people**

We remain committed to building and investing in the capability of our people so that they can continue to deliver high-quality services, especially through the transformation period. We have taken a number of actions to demonstrate this in the past year:

- Partnering with Auckland University of Technology to develop undergraduate and postgraduate qualifications in case management and leadership with an ACC context
- Implementing a new performance framework that aligns the principles of remuneration, recognition and rewards with ACC's strategic drivers, empowers employees and recognises top performers
- Completing an independent review of our health and safety governance
- Workforce planning, including third party service delivery options, is an area we need to develop.

We recognise that as a monopoly provider, the lack of competitive pressure may weaken the drivers of innovation. We accept the challenge and we will seek to create a culture that fosters innovation so that we not only learn and respond to what our customers tell us they want now, but we predict and deliver what they might need in the future.

## Milestones

### *i. Benchmarking our performance*

We have implemented a trial with TPAs to manage non-work injuries with employers who participate in the Accredited Employer Programme. This provides a benchmarking opportunity and introduces competitive pressure to our case management service. The trial will go through until June 2015 and we will use this period to develop views on quality and service performance, rehabilitation rates and achievement and scheme savings in terms of the number of days workers compensation is paid per claim. We continue to seek these opportunities to assist the development of ACC performance.

### *ii. Injury prevention*

This is a priority for the Board. Over the next six months we will have developed a plan to address the injury prevention weaknesses identified in the PIF report. ACC's 2015-2019 Statement of Intent will clearly set out this priority area, the actions that will be taken and the measures that we will monitor to ensure we meet the performance challenge set out in the PIF. This will be developed with our key stakeholders and be published by 30 June 2015.

### *iii. Stakeholder engagement*

We will develop (with our stakeholders) an organisational approach to stakeholder engagement in order to address the findings of this report by June 2015. The recent review of elective services involved working groups led by external stakeholders from the health sector and supported by ACC staff. This approach will provide a model for how we approach future service redesign opportunities in order to collaborate more effectively with providers.

### *iv. Shaping Our Future*

- By May 2015, we will have completed the integrated design and planning phase of the Shaping Our Future programme, including design of how our customers will experience our services in the future and approval of the programme implementation plan.
- By June 2017 we will have:
  - a improved the customer end-to-end experience: improved quality and consistency of the customer experience delivered through branches, call centres and digital channels
  - b simplified processes and channels: customers will have more choice about how they interact with ACC and the effort for them to do so will be reduced
  - c lifted our capabilities and culture: staff will be upskilled and empowered to make front-line decisions
  - d upgraded our technology to better meet customer needs and experience: improved claims handling, provider processes and customer interfaces, designed and built in accordance with privacy principles.

The phasing for each of these activities will be confirmed by the design and planning activities that will be completed by the end of May 2015.

## **Concluding comments**

We agree with the findings of this Review and it supports our vision for ACC in the future.

We would like to thank all those that contributed to this review. We are committed to delivering on the four-year excellence horizon and we will ensure actions to address the findings are integrated into our business planning processes.

Paula Rebstock  
**Board Chair**

Scott Pickering  
**Chief Executive**

## THE FOUR-YEAR EXCELLENCE HORIZON

*In undertaking this review the Lead Reviewers considered: “What is the contribution that New Zealand needs from ACC and, therefore, what is the performance challenge? And if ACC is to be successful at meeting the future performance challenge, what would success look like in four years?”*

### Executive Summary

ACC can only deliver a better experience for its customers while simultaneously delivering financial sustainability with levy stability by improving service quality and effectiveness. Trying to win the trust and confidence of customers and the public with a more generous administration of the scheme creates an unnecessary tension between these goals. That tension leaves ACC chasing customer goals in one period and financial goals in the next. This ‘pendulum effect’ adds to scheme volatility in ways that undermines confidence in the scheme. It also makes ACC difficult to partner with and undermines partner and staff confidence that ACC will persist with any particular course of action.

The Board and senior management understand this challenge and have a plan to improve key elements of service quality. The organisational challenge is to build the change management capability necessary to deliver these improvements in service quality while addressing recent deterioration in scheme performance by strengthening service effectiveness (including in rehabilitation) at the same time. While trust and confidence has improved as ACC has focused on it over the last year, it is still far too low.

Success will require ACC to partner more effectively with those in both the public and private sectors that are necessary to strengthen injury prevention as well as deliver better service quality and effectiveness. ACC needs to see itself as an active participant in a wider system; take a more sustained and systematic approach to partnering; and partner on equal terms with others in that system.

Meeting all of these challenges requires ACC to become more confidently outward-focused; with more customer- and partner-centred behaviour “when no-one is looking”. Being more responsive to the needs of individual customers and partners requires more authority delegated to the frontline. Reconciling that with a more consistent and predictable customer experience requires a widely understood and accepted approach to using that discretion, ie, of the right ‘ACC way’ to behave.

### Environment

#### **ACC is heavily influenced by its monopoly, history and boundary issues...**

ACC’s environment is largely shaped by three factors:

- a ACC’s position as a monopoly state-owned insurance provider in an environment where claimants have lost the right to sue. Unless people have supplementary private insurance, ACC is the only source of compensation available to sustain claimants and their families, and to fund their rehabilitation, if they suffer a serious injury. Levy payers cannot choose a different provider (and employers have limited influence over the impact of non-work injury suffered by their employees). Because ACC does not have to compete for premiums, it needs to find other ways to try and be as responsive to the needs of its customers as it would be in a competitive situation. And because its customers cannot go elsewhere, they can only express their dissatisfaction through the media and complaints which find their ultimate expression in judicial and political processes.

- b The nature of the scheme creates plenty of scope for dissatisfaction. People are typically not clear on their entitlements and the rules can be applied inconsistently. ACC has a difficult job because it can be hard to make clear cut assessments about both the cause of a claimant's condition (injury or illness and degeneration) and their eventual readiness to return to work. Moreover, claimants have a strong incentive to ensure they are covered and to increase their entitlements - and in some cases to prolong the period of entitlement - because they are better off as a result. Treatment under ACC is generally seen as superior. Earnings related compensation can also be relatively attractive and there is a weak link between people's entitlements and what they pay. All this creates tension between claimants, and the clinicians who often see themselves as claimant advocates, and ACC staff who have to apply the rules. Levy payers are also concerned about the degree of instability in the levy, amongst other issues.
- c ACC's relationship with its claimants is typically mediated through its clinical partners and, therefore, it needs to address claimant trust and confidence issues through these partners.

### **... where customer dissatisfaction is 'voiced' through judicial and political processes**

Given the low cost of disputing ACC decisions, these factors result in a relatively high number of disputes of decisions that are adverse to the claimant. To the extent that these disputes end up in court, judgements that go against ACC expand entitlements.

While this judicial impact is important, it is not as important as political influence on the scheme:

- a Levies are currently over 2% of Gross Domestic Product, so they are already a significant economic cost. When it comes to setting levies, governments are typically slow to change them, especially when levy increases are required. This slowness to respond ultimately reflects in levy instability and variability of entitlement. Governments are also reluctant to see levies varied to the extent necessary to reflect the underlying risks of different activities (like riding motorcycles) and the result is missed opportunities to signal true cost and therefore encourage safety.
- b Different governments have tended to view the scheme with more or less of an insurance or welfare lens. The operation of the scheme is sensitive to the views of its Ministers, so these different views also add to the variability in scheme operation and entitlement experience over time.
- c The operation of the scheme is also sensitive to claimant dissatisfaction on issues that attract media attention (as recent privacy breaches have done).

### **... which helps create cyclical volatility and scheme volatility that undermines confidence.**

These factors add to scheme volatility in ways that undermine confidence in the scheme. Levy payers should be able to expect more stability and predictability in what they pay and what is provided in return. Similarly, entitlement experience should only change in response to a transparent and well informed regulatory, legislative or judicial process that changes cover and entitlements; rather than as an administrative response to financial pressure, ministerial preferences or public concern over a particular issue. Finally, the tendency to respond to different pressures at different times undermines the confidence of ACC's partners and people that it will "stay the course" when it sets a new direction.

Little wonder then that the biggest concern raised by the majority of people we spoke to was the 'pendulum effect' ie, the way ACC seems to swing between a focus on claimant satisfaction and public trust and confidence in some periods and improving financial performance in others.

Judicial and political factors would also influence the development of a regulated private accident insurance market to some degree (indeed judicial action that expanded entitlements combined with government regulation that restrained premiums has been cited as a reason why the private insurance market for injury was not well developed prior to the creation of ACC). However in ACC's case, the lack of customer choice, the process for setting levies and the more intimate and less transparent relationship with the Government exaggerates the influence of these factors.

### **Where ACC is in the cycle determines its immediate priorities**

In the short term then, the most important environmental factor has been where ACC is in balancing the financial and customer priorities. The key elements of the current position are:

- ACC is currently in good shape financially, with some reduction in levies required to return the levy funded accounts to a more balanced position. This is a potential source of future levy volatility because, unless the over-funded portion is ring fenced in some way, addressing over-funding requires a temporary period where levy rates are set below that required to fully fund the account and the shorter this period the bigger reduction and subsequent increase required in those rates
- While public trust and confidence has been improving, this remains low and levels of claimant and levy-payer trust in ACC are both worryingly low
- There is increased focus in the broader community on workplace health and safety (eg, the formation of WorkSafe and new legislation); on injury prevention (eg, NZ Police focus on preventative policing); on more client-centred funding of people with disabilities in the health sector; and with the Ministry of Social Development putting more focus on helping people with disabilities back to work
- Reducing employer levies also poses some challenges for maintaining TPAs at the very time when expanding the role of these firms could be useful in helping ACC improve claimant and levy payer satisfaction
- Finally, as the economy recovers claims and entitlement duration are both likely to increase. Although ACC cannot accurately identify the magnitude of this effect, we are already seeing signs of this happening.

While the strong financial position and weak customer satisfaction suggests immediate attention will be focused on the latter, the short term outlook is more complex. ACC may find itself having to address pressure from increasing numbers of claims and duration at the same time as it is transforming its business to improve customer satisfaction. That difficult situation will be made even harder if a large proportion of ACC's people and partners continue to see these as conflicting goals. That will also bring concerns about ACC 'staying the course'.

### **Longer-term factors will shape scheme evolution**

These judicial, political and short term factors dominate ACC's environment. There are positive and negative factors that will impact ACC longer term:

- a On the positive side, technology will make it easier for ACC to be more efficient; to provide more tailored, personalised and seamless service to claimants and levy payers; and help ACC to work more effectively with its public and private sector partners. For example this is by making it easier to gather and analyse large volumes of data; to automate large numbers of transactions and less complex decisions while providing guidance to support greater delegation to front line staff; and expanding the scope for digital channels and self-service. Realising these benefits will require investment and strong change management capability.

- b On the negative side, economic factors – like growth in income and jobs and health sector inflation – will add to the cost and volatility pressures on the scheme. While total scheme costs have been reduced in recent years, the long term trend is for these costs to grow faster than inflation. Economic factors also have a bearing on funding risk because liabilities cannot be completely matched by long-lived assets. Aging will increase both the incidence and importance of degeneration as an injury co-morbidity, making it more difficult to distinguish between what is covered and what is not, as well as complicating recovery. On the other hand, an older population is less likely to be eligible for weekly compensation and a decline in the proportion of younger drivers is likely to reduce road accident claims.

The ACC's performance challenge is shaped by the need for it to respond effectively to these short and longer term environmental factors.

## **Performance Challenge – Outcomes**

The main performance challenge facing ACC is to:

- ensure that the scheme remains fully funded, with more stability in levies over time; while simultaneously
- lifting the level of claimant, levy-payer and public satisfaction with the scheme by more consistency and predictability in the payer and entitlement experience and significantly improving the quality of that experience (eg, a more timely, tailored, and seamless end-to-end experience).

These financial and customer objectives are not mutually exclusive and need to be pursued together: ie, the challenge is to secure both financial 'and' customer objectives and escape the pendulum swings that implicitly treat these as a choice between one objective 'or' the other.

While the hard work over the last few years has left ACC in a strong financial position, it is essential ACC addresses the deteriorating claims management performance in order to stay on track. For example, for the 12 months to March 2014, new claims increased 4.2% and long term claims, numbers of days on weekly compensation and return to work performance are all adverse to targets.

While public trust and confidence has started to recover, ACC still scores the second lowest amongst all public agencies. Claimants, service providers and levy payers are typically not satisfied with ACC's service delivery. When asked "how deserving is ACC of your trust" the number of claimants, levy-payers and providers who rank ACC poorly far exceeds the numbers who rank it highly. The Net Trust Score subtracts the percentage of people scoring ACC from 0-6 out of a top score of 10 from the percentage scoring it 9-10 and the net results are -64% for levy payers, -60% for claimants and -23% for providers.

ACC aims to lift these Net Trust Scores to zero over the next three years. This would represent a huge lift in trust over a relatively short time period. This lift in trust will need to be delivered in a way that does not increase or prolong entitlement because that would bring the pendulum effect back into play, thus destabilising levies and the entitlement experience all over again. Rather, ACC has to achieve this lift in scores by changing its operating model to address the more fundamental factors that concern its customers: like improving timeliness and accuracy of decisions; the transparency and communication of entitlement, invoicing and of ACC decisions around cover and entitlement; strengthening the support provided during the rehabilitation process; ensuring that ACC's clinical judgements represent accepted clinical practice; and protecting the privacy of personal information.

ACC has just completed a detailed diagnostic of the issues driving customer satisfaction and what needs to be done to change its operating model to respond to these issues - the 'Shaping Our Future' (SOF) programme<sup>1</sup>.

While most of the performance challenge rests with ACC, its success will be limited without changing the levy setting process to provide more levy certainty and predictability. There is no overarching legislative framework that establishes the objectives to be met, or principles to guide, the annual levy setting process. Because scheme liabilities are long lived, it is important that these decisions can be readily assessed against their impact on the long term solvency of the scheme and on likely future levy rates. Similarly, it is important that levies are better able to reflect the underlying riskiness of different decisions businesses and individuals might make when that will create the right incentives on them to take care and to invest in injury prevention and rehabilitation.

We understand that a more principles-based and longer-term approach to levy setting is being developed and will be considered by Government. This is an important and very positive development. Given that levies are set by government, this approach is likely to be more effective if it is grounded in legislation that binds the Crown and requires ACC to publish its advice on the impact of levy decisions on the objectives, and consistency with the principles, that have been established.

## Performance Challenge – Organisation

ACC recognises the need to transform itself from an organisation that has focused on administrative efficiency to one organised around delivering a better service to its claimants, providers and levy-payers while maintaining financial stability. ACC already has a number of initiatives underway aimed at improving the claimant experience (ie, 'customer service optimisation'). That has been supplemented and extended by SOF which aims to transform the operating model to both address the wider set of challenges described above as well as deliver a productivity improvement that will more than cover the cost of the programme. The findings of this PIF Review are consistent with what we understand of the diagnostic phase of that programme. While SOF has identified the key changes required in ACC's operating model, there are a number of factors that need attention in order to both increase confidence around successful execution of the new model and then to ensure that this model continues to improve over time.

### (i) Purpose and Targets

ACC's purpose is well described in its latest Statement of Intent:

*"... to deliver injury prevention initiatives and no-fault personal injury cover for everyone in New Zealand ... The scheme created a social contract whereby individuals gave up their right to sue for compensatory damages following injury, in exchange for comprehensive accident insurance cover and compensation."*(p4)

ACC's vision until now was "to be leading the world in injury prevention, care and recovery." It has aimed to deliver three high level outcomes: reduce the incidence and severity of injury; rehabilitate injured people more effectively; and provide an affordable and sustainable scheme. It has had clear and measurable targets around these three outcomes:

- Reduce new entitlement claims per 1000 population from 24 to 22 by 2017/18
- Maintain a durable return-to-work rate that is 1% better than the Australian rate

<sup>1</sup> Shaping Our Future is a business transformation programme currently at an early stage. Its scope includes customer experience; operating structure; organisation design; capabilities and culture; and technology.

- Ensure each year's revenue will cover that years full cost of claims (by maintaining a levy to claims ratio of between 0.9 and 1.1 over time).

In order to deliver on those outcomes, ACC also aims to improve customer experience, lift public trust and confidence and significantly reduce privacy breaches. The targets in these three areas in the Statement of Intent are only expressed in terms of direction of improvement. In the Service Agreement, ACC aims to increase client and levy-payer satisfaction by five and nine percentage points over the next three years.

While the purpose is clear, ACC recognised that it needed to change the descriptions of its vision and targets to better reflect what it now aims to achieve. The new vision should be more motivating and unifying for ACC's people and partners as well as provide more guidance on what ACC can do that is most valued by the community it serves (given the scheme is unique, 'world leading' is hard to assess and may not be that well aligned to why ACC's people and partners come to work). While the target for a zero Net Trust Score within three years is yet to be published, it is demanding enough to ensure this goal receives the priority it deserves. The current targets for the service quality need to be reconsidered in the light of these more demanding Net Trust Score goals (eg, elements like timeliness, disputes and consistency need to be strengthened for the difficult cases).

## **(ii) Business Strategy**

The business strategy describes 'what' the organisation needs to do to meet the performance challenge. Is ACC focusing on doing the right things and would delivering those things be sufficient to meet the performance challenge?

ACC has defined five areas of focus for the next four years in its Statement of Intent:

- Increase the success of injury prevention initiatives by better targeting and assessing ACC's own investments to improve the overall return to the scheme and developing cross-government initiatives to reduce the incidence and severity of injury
- Improve the experience of claimants and levy payers to better meet their needs (ie, being more responsive, transparent, easier to deal with, digitally enabled and fit for purpose) by increasing focus on the customer; improving the end-to-end customer experience; improving service quality and better partnering to improve service effectiveness
- Maintain financial sustainability of the scheme by enabling a stable levy path, improve monitoring and understanding scheme performance, strong investment performance and good risk management
- Lift public trust and confidence by increasing awareness, improving services, strengthening prevention and making it easier to do business with ACC
- Significantly reduce privacy breaches by better designed systems and processes, proactively managing risk and ensuring better information flows with stakeholders and providers.

At a high level, these are the necessary and largely sufficient components of the business strategy required to meet the performance challenge.

What is missing? Most significantly, the need to change the levy setting process as discussed in the performance challenge section above. While this is ultimately a matter for government, we understand that work is under way with Ministers to address this issue. We would see the resolution of this issue as an essential additional element of a successful business strategy.

Also missing is a focus on dynamic elements of performance. ACC's monopoly position means there is no competitive pressure to be responsive to changing customer needs or to continuously improve its service. ACC needs to at least find a useful benchmark in its own market (eg, by substantially expanding the role of TPAs).

There is also a question of the appropriate balance amongst these focus areas. The environment section pointed to some short term financial sustainability and stability risks that will need to be well managed. There are already early signs of adverse trends in claims and duration, for example, and the economic recovery may well pose more of a risk in this area than is currently anticipated. That points to the importance of controlling these risks as ACC moves into its operational transformation. That in turn underscores the importance of the new senior management appointments, especially that of the Chief Operating Officer who is focused on ensuring these risks are well managed so the transformation process can proceed smoothly.

There are also some important dimensions of the 'what' that need more attention. We have, for example, highlighted the importance of improving the consistency and predictability of the payer and claimant experience as part of improving the quality of that experience. That includes a focus on reducing the variability in rehabilitation outcomes. Improving timeliness will also be important. These elements of the customer experience are at least as important as those elements of quality highlighted in the Statement of Intent (ie, responsive, transparent, easier to deal with, digitally enabled and fit for purpose).

Similarly, more effective partnering, both across government agencies and with providers and clinicians, will be required to be successful in improving the customer experience, lifting public trust and managing scheme performance. The relationship with providers and clinicians will be more focused on outcomes, integrated and trust based, with outliers identified. In the injury prevention area, ACC also needs to expand the focus of its own activities beyond its investments if it is going to be successful. Prevention requires prediction, and intelligent use of ACC data can help improve the effectiveness of ACC and its partners in injury prevention. ACC could also make greater use of variable levies to encourage people to take care and to invest in prevention (eg, in the treatment injury area).

Finally, execution is critical. The transformation of ACC's operating model anticipated in SOF is at the heart of ensuring this business strategy is executed successfully. That needs to be supplemented with a redefinition of the vision, outcomes and targets (as above) as well as a better alignment of behaviours with these goals. In particular, the financial and customer service goals of the strategy need to be aligned and this alignment brought to life. It requires that alignment to be well communicated internally and externally, and reflected in ACC's values and behaviours, in what ACC's front line people are being asked to do, and in how ACC's people are assessed.

### **(iii) Operating Model**

SOF identified a range of shortcomings with the current operating model including: fragmentation and duplication of activity; a great number of paper based activities; co-ordination issues between claims activity and information technology developments; and too many touch points for ACC clients. There is little doubt in the diagnostic of the importance of the front line in both making sure entitlements are dealt with appropriately and also managing risks to the scheme.

There are a series of recommended changes in SOF including the appointment of a Chief Operating Officer (whose appointment was recently announced) who will integrate information technology and client service activities, ensure greater consistency in frontline decision making and will work to empower claims managers with greater levels of delegation to better tailor solutions to claimants' individual situations and rehabilitation requirements. Improving consistency with greater delegation

to the front line will require more emphasis on developing the right culture, aligning front line incentives, and providing stronger professional leadership and decision making support for front line staff. That needs to be underpinned by a substantial training effort and an improved information technology platform. All up, there is a very busy three to five years ahead to successfully transform ACC's operating model and embed these changes.

The work undertaken in reviewing ACC's operating model appears to be thorough and its conclusions to have validity in light of our investigations. Further refinement of the desired operating model is likely to be required as plans are more widely shared and as the new model is implemented. For example:

- What is the right role of the branch offices in managing local relationships and managing local risks such as local coincidence of health, social, justice (including Police) and injury risk in vulnerable populations?
- What would be required to define desired outcomes and give providers more discretion to manage to those outcomes – and some claimants more influence over how their needs are met once they have been properly assessed – within the available budget?
- What refinements in the operating model would be required to ensure that the different analytical groups – in actuarial services, in the financial controller's function, in claims management and procurement – work more effectively together to better understand scheme performance and provide much richer intelligence around the scheme's risks?
- How will ACC use information from complaints and review processes to enhance the quality of the entitlement plan offered?

The operating model will need to be much more 'open' and ACC operating groups will need to be more effective at engaging with stakeholders at all levels - with service providers in claims management, with levy payers and with other departmental agencies. While good at partnering in some areas, ACC will need to be able to develop more effective partnerships across a wider spectrum, especially with service providers and other agencies who are important in delivering the outcomes ACC seeks (like injury prevention).

In injury prevention, ACC needs to be able to demonstrate it is able to think strategically, at a systems level, rather than just tactically around gap funding. This is an area where ACC's focus has been sporadic and needs to be more sustained and systematic.

#### **(iv) Implementation (including Change Capability)**

The change environment in the organisation is a potpourri of willingness to change but poor ability to implement. The frontline is closely aligned to the purpose of the organisation and there is a great deal of pent up frustration in systems and tools they have to work with to achieve that purpose. There is a strong call to do right by the client and the scheme and this reflects in a high level of energy to undertake changes that lead to benefits for clients and the scheme.

Against this enthusiasm is a back-drop of poor performance in change management. We found poor handover of projects to business as usual, re-designation of project success, person driven projects without an organisation perspective and an unwillingness to hear about project shortcomings or lack of readiness of the business to implement projects. The SOF diagnostic also indicated a low capacity to respond to major change, with sub-optimal capabilities across people, process, technology and tools. Projects start with a high degree of enthusiasm and can falter or be poorly implemented. The repeated phrase in the interviews was "staying the course" which we interpret both in terms of scheme stability and in an inability to carry ambitious intentions through into final outcomes.

Organisation culture is clearly an area that needs to be better aligned to deliver a more customer-centric 'ACC way' of behaving. Our observation is that much of the organisation is reactive and hesitant of raising issues with management. There is a lingering perception amongst some people we spoke with that the remuneration system is tied to the Gallup poll, leaving a sense the Gallup result is not as neutral as it is intended to be. The union relationship is old fashioned and confrontational. There is evidence cross-group decisions are not part of the organisation's fabric. In external situations, ACC appears to have operated with its cards too close to its chest which does not engender the sort of trust required to underpin a successful partnership. In short, the culture needs to focus on shared trust both internally and externally.

ACC management recognises the need for cultural change to complement the required changes in operating model. The behaviours that will be important in future need to reflect the desirability of greater openness, recognising the individual needs of customers and working more effectively with partners. All of those elements are underpinned by some notion of shared trust where parties are willing to work together and share information in an open and frank manner. The Net Trust Scores indicate that ACC has a lot of proactive work to do to earn this trust.

Management needs to start modelling the desirable behaviours. While it has made sense to work up the key features and dependencies of SOF with experts and leaders seconded in from the line, the time has come to share these more widely within the organisation. While we understand that more information is soon to be released, we would encourage management to start sharing all of the elements of the programme necessary to allow ACC's people and partners to consider, reflect and respond to the proposed new direction for ACC.

## **What will success look like?**

At the highest level, success looks like a scheme that remains fully funded, with a predictable levy profile over time alongside much improved levels of claimant, levy-payer, provider and public trust (eg, Net Trust Scores at least in balance and heading into positive territory).

This would be supported by a timely and higher quality levy-payer and claimant experience that is more transparent as well as more consistent and predictable over time and across the country. Providers would be more focused on outcomes, outliers would know who they were and there would be less variation in rehabilitation outcomes for the same injury. Continuous improvement would be part of the ACC way of doing business, supported by benchmarking including a stronger presence of TPAs. ACC would be easier for everyone to do business with, with electronic interface being the norm. Internally, there would be a sense of consistent direction and purposeful follow through of intentions to better outcomes for ACC's people and its partners. The 'pendulum' would be seen as part of history.

SOF would have been well implemented and provided ACC with an operating model that delivered the anticipated efficiency gains, was fit for purpose and enabled the sort of customer-centricity needed to underpin the improved Net Trust Scores being sought.

The levy setting process would be guided by a principles based approach, with public transparency around the consistency of annual rate decisions with both the agreed principles and the long-term financial objectives of the scheme.

In the claims area we would expect to see disputes greatly reduced, more timely approval of both cover and entitlement (with both communicated together), and duration KPIs set in terms of expected duration for each client rather than the current time pools.

We would expect to see substantial improvements in injury trends over the next few years that could be traced back to a well-developed injury prevention strategy (eg, the Service Agreement has a goal for ACC and other government agencies to deliver a 10% reduction in fatalities and serious injury in the workplace by 2016). Injury prevention would be approached systematically with a clear view of what interventions (eg, education, subsidy, regulation, levy setting, enforcement) are best used in which situation, with that view spanning all government agencies with responsibility for the relevant interventions. Targeting of these interventions and assessment of their effectiveness would be based on intelligence and analysis that makes good use of the data held by ACC and other relevant agencies (as ACC is doing to guide its own subsidy programme). ACC can clearly demonstrate that a more substantial portfolio of investments in injury prevention will generate a positive return to the scheme over time.

The funds management area would be continuing to perform above benchmarks and will have increased the degree of matching in the portfolio, in part by working with others to develop assets that better match the ACC liability profile.

**Dr Murray Horn**  
Lead Reviewer

**David Moore**  
Lead Reviewer

## CENTRAL AGENCIES' OVERVIEW

The central agencies agree with the reviewers' findings including the description of the environment ACC faces, its capabilities and the challenges and opportunities presented. ACC has undertaken the Shaping Our Future customer orientated diagnostic in the past year which sets a clear direction and will transform ACC's operating model to deliver for customers and stakeholders. The reviewers endorse this programme while identifying some of the change management issues and the challenges of simultaneously addressing stewardship and financial sustainability. As noted the financial and customer objectives are not mutually exclusive and need to be pursued together – 'and' not 'or'.

There is a strong theme in the PIF report that relationships and partnering are vital to ACC's success. Examples of this are the relationships with government agencies and others in injury prevention, with clinicians and providers who are the interface between ACC and the majority of claimants, and with the health sector in regard to better treatment and rehabilitation solutions.

The report also talks of ACC benchmarking performance and evaluating results, of dynamic learning through to the frontline, and of following through to achieve the successful implementation of initiatives. ACC needs to take its people with it on the journey and excellent change and people management is vital.

ACC's Agency Response sets out ACC's view of its priorities for action and we agree with the themes identified. We see our central agencies' input as very important to ACC successfully delivering the programme outlined, including pursuing its customer and financial objectives simultaneously and avoiding scheme volatility. The Treasury in our ownership and performance monitoring role, and the Ministry of Business, Innovation and Employment in our policy role, will take the lead on behalf of the central agencies (with our relationships with ACC being appropriate to its Crown entity form). We will work with ACC so that the PIF Follow-up review finds improvements in a range of areas identified in the report. Our particular areas of engagement are likely to include:

- encouraging ACC to maintain its focus on rehabilitation performance (Treasury)
- finalising a government direction on funding policy for levied accounts with ACC to encourage greater transparency and certainty (MBIE)
- supporting ACC to develop cross-agency injury prevention initiatives, and in particular to further the Safety Star Rating Scheme and three year work programme with WorkSafe NZ (MBIE)
- partnering with ACC to ensure the scheme's regulatory framework is fit for purpose and supports ACC work to make the scheme as efficient and fair as possible (MBIE)
- engaging with ACC on whether the scheme is delivering on the policy objectives (MBIE)
- working with ACC to ensure the monitoring framework is driving value, there are good information flows between Treasury and ACC, and early discussion of risks and opportunities and how they will be managed (Treasury)
- supporting ACC to successfully deliver the Shaping Our Future programme (including encouraging appropriate interaction with other government agencies and initiatives), while retaining focus on other core elements of scheme (Treasury)

- advising and supporting ACC as it contributes to Better Public Services Result Areas 9 and 10 (Treasury).

ACC requires the support of the central agencies as it addresses the performance challenge set out in this report. We are committed to giving that support.

**Iain Rennie**  
State Services  
Commissioner

**Gabriel Makhlouf**  
Secretary to the  
Treasury

**Andrew Kibblewhite**  
Chief Executive,  
Department of  
the Prime Minister  
and Cabinet

**David Smol**  
Chief Executive, Ministry  
of Business, Innovation  
and Employment

# SUMMARY OF RATINGS

## Results

| GOVERNMENT PRIORITIES  | RATING  |
|--|---|
| Reducing privacy breaches  |  |
| Improving trust and confidence                                     |  |
| Maintaining a focus on financial sustainability and levy stability |  |
| Delivering better public services                                  |  |

| CORE BUSINESS               | RATING (EFFECTIVENESS)  | RATING (EFFICIENCY)   |
|-----------------------------|---|---|
| Injury prevention           |  |  |
| Levy setting and collection |  |  |
| Investment management       |  |  |
| Claims management           |  |  |
|                             | RATING  |   |
| Regulatory Impact           |  |   |

## Rating System

|  |   |   |   |  |
|--|---|---|---|--|
|  Strong |  Well placed |  Needing development |  Weak |  Unable to rate/not rated |
|--|---|---|---|--|

## Organisational Management

| LEADERSHIP, DIRECTION AND DELIVERY    | RATING  |
|---------------------------------------|---|
| Purpose, Vision and Strategy          |  |
| Leadership and Governance             |  |
| Values, Behaviour and Culture         |  |
| Structure, Roles and Responsibilities |  |
| Review                                |  |

| EXTERNAL RELATIONSHIPS                           | RATING  |
|--|---|
| Engagement with the Ministers                    |    |
| Sector Contribution                              |   |
| Collaboration and Partnerships with Stakeholders |  |
| Experiences of the Public                        |  |

| PEOPLE DEVELOPMENT                   | RATING  |
|--------------------------------------|---|
| Leadership and Workforce Development |  |
| Management of People Performance     |  |
| Engagement with Staff                |  |

| FINANCIAL AND RESOURCE MANAGEMENT      | RATING  |
|--|---|
| Asset Management                       |    |
| Information Management                 |    |
| Improving Efficiency and Effectiveness |    |
| Financial Management                   |    |
| Risk Management                        |  |

## Rating System

|  |   |   |   |  |
|--|---|---|---|--|
|  Strong |  Well placed |  Needing development |  Weak |  Unable to rate/not rated |
|--|---|---|---|--|

Note: There have been three significant upgrades to the PIF Agency Model since it was implemented in 2009. The first was the inclusion of the Four-year Excellence Horizon in October 2011. The second was the Strategic Financial Management upgrade in December 2012. The most recent is the Better Public Services upgrade in January 2014. These upgrades affect comparability with previous PIF reports. For more information on the upgrades see: <http://www.ssc.govt.nz/pif-core-guide-1>.

## AGENCY CONTEXT

ACC is the Crown entity that manages New Zealand's universal, no-fault Accident Compensation Scheme. The scheme provides cover to people injured in New Zealand, including overseas visitors and, in some cases, New Zealanders injured overseas. The Accident Compensation Act 2001 sets out three core functions for ACC:

- injury prevention
- rehabilitation
- compensation.

The majority of claims for ACC cover are lodged through a medical practitioner at a general practice, emergency department, or accident and medical centre. To establish eligibility for cover, ACC determines whether the claimant has suffered a personal injury, the cause of the injury, and where the injury occurred.

ACC must hold sufficient funds to meet its statutory obligations to pay for entitlements for injured people, as well as the administrative infrastructure required to deliver the Scheme and injury prevention activity. The Scheme's financial position is represented by the Outstanding Claims Liability which is an actuarial estimate of the net present value of all future costs of all of the claims on ACC's books at a point in time, including an allowance for claims incurred but not reported. Solvency is the ratio of ACC's assets to its liabilities - whether the Scheme has sufficient assets to meet the Outstanding Claims Liability.

Funding for the Scheme is managed through five Accounts:

- levied Accounts (collected through ACC levies) – the Work Account, Motor Vehicle Account, and Earners' Account
- non-levied Account (collected through Government appropriation) – the Non-Earners' Account
- mixed-funded Account (collected through ACC levies and Government appropriation) – the Treatment Injury Account.

The scope and scale of ACC is illustrated by:

- 1.8 million new claims accepted and \$2.96 billion total claims paid in the 2013/14 year
- income from levies (\$3.67 billion), investments (\$1.56 billion) and Parliamentary appropriation (\$1.06 billion) in the 2013/14 year
- \$27.4 billion in investments at June 2014 (to meet the future costs of current claims)
- 3,135 full time equivalent staff (FTEs) as at 30 June 2014; 78% frontline (direct and indirect) staff
- 31 locations nationwide, including a network of 25 branch offices, service centres, contact centres, specialised units and Corporate Office.

## RESULTS SECTION

### Part One: Delivery of Government Priorities

This section reviews the agency's ability to deliver on its strategic priorities agreed with the Government. While the questions guide Lead Reviewers to retrospective and current performance, the final judgements and ratings are necessarily informed by scope and scale of the performance challenge.

|  |
|--|
| <b>Government priority 1: Reducing privacy breaches</b>  |
| Performance Rating: <b>Well placed</b>  |



Reducing further breaches in privacy is a high priority given ACC's recent history of high profile privacy breaches and the consequences of those breaches. ACC has responded to issues raised in the August 2012 'Independent Review of ACC Privacy and Security of Information' with a great deal of manual effort and tight review processes to get as close as possible to zero breaches, whether they cause harm or not.

There is consciousness at all levels of the organisation around privacy of information and a considerable number of additional process checks in place to reduce the possibility of a breach. Examples of this effort include establishing privacy as a workstream addition to but separate from systems security, double checking of file data to ensure the exclusion of non-relevant data, removal of pop-up email addresses and checking of all outgoing correspondence including emails. There is a great deal of double and triple checking. The work-load is considerable and around 100 staff are assigned to addressing this priority area.

There are considerable legacy issues in existing files some of which may span decades. Typically, a file is requested when an entitlement is being reviewed. Someone has to read every page of the file and a second person has to check the file before it is dispatched. There will be some technological assistance possible in future to assist with reading the file such as character recognition and predictive technologies but it is likely this activity will remain part of the business until legacy files have been cleansed. This file cleansing will happen as ACC responds to client information requests. ACC has now checked around five million pages. Unfortunately, the larger files are those most likely to be requested.

There has been a shift from a previous reactive and defensive approach to a more proactive one. Any breach is now front footed, with an apology even if that breach is unnoticed by the recipient. The Privacy Commissioner Office advises ACC is approaching a gold standard for privacy in our part of the world.

Looking forward, ACC wants to maintain the same standard without such heavy manual effort. ACC's systems will be better able to store and retrieve information on a claimant file. Thus, for instance, any provider payment will relate to that claimant rather than being a photocopy of a provider invoice with multiple clients. ACC will also be able to be much more careful in specifying the information collected from providers. A client portal is seen as a means of interacting in a more safe and secure way with clients. Clients could see what information is held on their file, who has looked at their file and interact via digital messaging with ACC. Process automation will reduce errors by removing manual processing and activities such as 'cut and pasting' from one system to another.

## Delivery of Government Priorities

The results are positive. ACC has reduced breaches (including those which have caused no harm) by 60% and is around three months ahead of schedule. It is still breaching around 19 times a month but these appear minor. Formal complaints to the Privacy Commissioner have reduced from 75 to 26 per annum. Of those complaints 10 were upheld, down from 29.

To improve the rating, ACC would need to get the same or better result at much less cost and be able to provide clients with an audit trail through a client portal.

### Government priority 2: Improving trust and confidence

Performance Rating: **Needing development**



Trust and confidence was at a low point of 49% in 2011-12 due to privacy issues and has recovered to 59% at March 2014, with a result of no significant negative incidents a major contributor. However, the Net Trust Score for claimants, levy payers and providers is a long way from ACC's three year target of 0 which means ACC would have as many promoters as detractors. This score will improve with fewer privacy breaches, and as ACC addresses the concerns of claimants, levy payers and providers described in the Four-year Excellence Horizon.

There are a number of initiatives in ACC's business as usual work aimed at improving trust and confidence:

- Reinvigorating the Consumer Outlook Group. The initiative has addressed a number of issues in bringing a client view to the table but the group reports it has difficulty in ensuring management has regard for its voice
- Implementing self-directed goals for seriously injured clients
- Redesign of the handling of sensitive claims.

A number of issues are still to be addressed before the Net Trust Score will shift to the extent it needs to. Issues we have identified range from minor to significant (such as lack of clarity in the entitlement). Examples on this spectrum range from:

- minor annoyances to general practitioners (where there is a fixed limit of patient enquiries allowed to practice managers, meaning the practice manager has to keep calling back)
- frustrating issues for clients including a large number of touch points (up to 30 or 40) rather than resolution at first point of interface, to
- substantive grey areas in the entitlement plan such as questions around eligibility for an injury due to degeneration issues.

Claimants do not have a clear understanding of what to expect, what they are told often depends on who they talk to, and there is not a timely or seamless end-to-end client experience. Rather, claimants are expected to navigate through the organisation on the organisation's terms.

Levy payers offer little support to ACC because of a level of frustration around levies and invoices whereas, on the face of it, the scheme offers good cover and protection from potential liability at reasonable cost.

Other avenues for identifying dissatisfaction such as complaints, reviews and court cases are known about and dealt with but are not analysed or translated into actions to address underlying causes. The risk management framework should be able to translate the identified causes into mitigating actions.

SOF puts trust and confidence front of mind for the organisation and management is aiming to shift the Net Trust Score to positive territory over four years (0 after three). SOF identifies the need for prompt and consistent decision making and alternative channels that make dealing with ACC easier as a way to improve this score. In particular, SOF draws a picture of an organisation that will be client-centric rather than driven by administrative process. The organisation is several years away from delivering on some parts of SOF and it will be important for ACC to continue to deliver improvements in the meantime.

In this regard, some of ACC’s client service optimisation workstream is likely to be productive. This workstream has identified a number of initiatives some of which are close to implementation or have recently been implemented. Those initiatives include a needs assessment centre for assigning clients to the right intensity of case management, albeit within the existing case management structure. ACC has new claims management KPIs to provide a client focus as well as measures of good stewardship – these measures are soon to be implemented. All of these changes will make a difference over time but SOF will be needed to make more fundamental progress.

|  |   |
|--|---|
| <b>Government priority 3: Maintaining a focus on financial sustainability and levy stability</b> |   |
| Performance Rating: <b>Well placed</b>   |  |

In terms of financial stability:

- the scheme over time has experienced levy under- and over-shoot in combination with account under- and over-funding. This observed fund instability is a major concern for levy payers
- management is facing a current fall off in scheme performance and it is not clear that enough is being done to seek better approaches to manage this fall off.

Maintaining the financial health of the scheme requires improvements to claims management rather than levy increases in the first instance (see discussion on claims management below).

The major issues driving the fund have been discussed in the Four-year Excellence Horizon as has the importance of a more principles based long term framework to govern the annual rate setting process and the positive contribution that matching investments make.

ACC takes into account the state of the economy, superimposed inflation (ie, medical rate of inflation versus general price movement) and the discount rate applied to future cash flows. All three of these factors are somewhat external to the account and all need to be addressed in levy setting. We commend ACC for its Financial Condition Report which is an objective and useful statement of fund performance and contemporary issues in fund management.

The scheme is still maturing with growth of several hundred million dollars per annum. The estimate is the fund will take 80 years to mature, which is another 40 years from now.

The accounts are well funded. The Earners', Work and Motor Vehicle Accounts are fully funded or about to be. Substantial levy reductions will take place on these accounts over the next few years. Cabinet sets the funding parameters for accounts and makes the final decision on levy rates, after considering recommendations from ACC. Government appropriates for the Non-Earners' Account and that account is under-funded in line with Cabinet decisions. There is a move to remove past banding and look to a 10 year adjustment path around a single funding point which will assist levy stability to a great extent.

ACC will introduce further risk rating as levies fall. For instance, motor vehicles will be attributed a risk weighting based on crash data from Monash University. More could be done in risk weighting and we address this issue under injury prevention.

Claims management aligns to the expected income to the account by account release, or the net effect of levies and claims management. The indicator usefully brings together levy setters with claims management.

As noted below, the levy consultation process is sound.

### Government priority 4: Delivering better public services

Performance Rating: **Needing development**



Better Public Services Results 9 and 10 both aim to improve interactions with government – Result 9 focuses on business customers, and Result 10 on individual New Zealanders. ACC is one of the agencies contributing to Result 9: 'New Zealand businesses have a one-stop online shop for all government advice and support they need to run and grow their business'. Result 10 is 'New Zealanders can complete their transactions with government easily in a digital environment'.

The Government has clear and demanding targets for these areas to be achieved by 2017. ACC is a contributor to the achievement of these targets and its work is at an early stage.

Moreover, some of the basic building blocks are not yet in place. For example, use of common identifiers for claimants, businesses and providers, and standards for interfacing with other agencies undertaking major systems developments are still being worked through. Inland Revenue, ACC and the Ministry of Social Development are all planning transformation programmes and the alignment and interfaces between the resulting information systems will be important for businesses transacting with government. Planning for this is at an early stage. ACC has built the need for common identifiers (New Zealand Business Number and health identifiers) into SOF.

ACC needs to ensure it is linked up to other agencies involved with these result areas. The use of the New Zealand Business Number will be important to make interactions between businesses and government easier, and the relationship between the Inland Revenue and ACC will assist the identification of ACC levy payers and amounts owed.

The key customer groups - levy payers, service providers and claimants – currently find ACC difficult to deal with. Some of this difficulty is caused by systems that are ageing and were not built with a customer-centric approach, and some is caused by processes and interfaces that remain largely manual and which can be cumbersome. These cause delays (eg, in approving treatment), inconsistency between cases, inefficiency (eg, ACC needing to upload claims submitted manually), incomplete data and potential privacy issues.

The SOF programme seeks to address some of these limitations and proposes solutions including targeted technology replacement. ACC's digital solutions with providers will be targeted through its digital strategy; specific business priorities and associated detailed initiatives are to be defined as part of the SOF programme. We regard this as important as currently clinical notes come to ACC in pdf format or are scanned from hand written forms. National Health Index numbers may or may not be collected. Alignment with health information initiatives is equally an imperative for ACC as integration with the Ministry of Social Development and Inland Revenue.

## RESULTS SECTION

### Part Two: Delivery of Core Business

This section reviews the agency’s effectiveness and efficiency in delivering its core business. While the questions guide Lead Reviewers to retrospective and current performance, the final judgements and ratings are necessarily informed by scope and scale of the performance challenge.

|   |   |
|---|---|
| <b>Core business 1: Injury prevention</b>                   |   |
| Performance Rating (Effectiveness): <b>Weak</b>             |  |
| Performance Rating (Efficiency): <b>Needing development</b> |  |

If injury can be prevented, then rehabilitation and compensation is unnecessary. It is not surprising that Sir Owen Woodhouse noted that: “Injury arising from accident demands an attack on three fronts. The most important is obviously prevention”.

Injury prevention is both a difficult and important area for ACC because:

- It is about clients who have not presented to the scheme and, if prevention is successful, will not present to the scheme. Therefore, accurate intervention requires an ability to predict the likely cost and type of future injury, and to identify the sort of activity, demographic and behaviour that is both most risky and most responsive to intervention (eg, education, subsidy, regulation, varying the levy to discourage risky behaviour or enforcement). While potential claims are difficult to identify, current claims are a proxy for potential claims (although near misses are widely regarded as a better proxy)
- ACC has some leadership responsibility and that requires system-level thinking and an ability to work effectively with the range of public and private partners that have the ability to influence outcomes. System-level thinking requires ACC to be able to form a view on the set of interventions most likely to have the desired effect in any particular situation and work with partners to deliver an effective outcome in terms of lower injury for least cost to other objectives
- Removing the right to sue not only restricted access to an important source of compensation for the injured, it also reduced private incentives to take care and invest in injury prevention. That requires offsetting action by government to keep injury rates down (ie, more than would be required in other jurisdictions where the right to sue has been preserved).

ACC has been active in injury prevention over the years, most consistently in road safety. Sustained effort and effective partnerships have also produced some notable success such as ACC has achieved in working with the Rugby Union to reduce the incidence and severity of rugby injuries over the past decades.

However, its focus has been more sporadic than sustained and systematic. For example, external parties report ACC has been active in the past, more recently has been absent, but is showing signs of re-engaging. This on-again, off-again approach makes it difficult to form the sort of sustained partnerships necessary for success. A more disciplined approach to investments will help ensure a more sustained effort where investment can show a return. ACC still lacks a well developed injury prevention strategy with clear targets for reducing injury incidence and severity. It also needs to

better use the data that it and its partners have and develop the partnership network to deliver those targets. Moreover, while there is some evidence these weaknesses are recognised and there is the beginning of an injury prevention strategy, neither are yet 'sufficient'.

ACC is starting to invest more in prevention and in a more disciplined way. There has been a review of current funding activities and development of an investment strategy to ensure ACC's portfolio of activity generates a return to the scheme (as required by the Accident Compensation Act 2001). The investment strategy includes an investment framework that is mapped around four intersecting topics; strategic fit, return on investment, effectiveness and benefit realisation. The strategy is, however, about funding gaps in what others are doing and therefore appears tactical rather than strategic.

Another recent development is a focus on a wider set of causes of serious injury (eg, family violence, sexual abuse and mental health). ACC is in the very early stages of building the partnerships necessary to leverage its investments in these new areas (eg, there have been two preliminary meetings between ACC and Police).

ACC has also been proactive in using levy pricing and conditions, such as in the Accredited Employer Programme, to strengthen private incentives on large employers to improve safety in the workplace and to engage these employers in rehabilitation of employees suffering from work and even non-work injury in some cases. There is also an emerging alliance with WorkSafe that will help provide a more balanced and innovative approach to improving workplace safety (eg, a better balance between industry engagement, public investment, regulation and enforcement).

What is really required, however, is a coherent injury prevention strategy that is clearer about the relative roles that ACC and its partners need to play in different situations. It needs robust evidence that demonstrates where the greatest return to prevention is likely to be, with some clear targets and a framework for guiding decisions about when various interventions are likely to be most useful.

ACC also seems to take an overly narrow view of the range of interventions likely to be most effective in preventing the incidence and severity of injury. ACC could give more attention to the role that it can play in setting levies to strengthen private incentives to take care and invest in injury prevention (such as happens with large employers and now on motor vehicle levies). The ACC Actuary's Financial Condition Report suggests this sort of approach should be extended to treatment injury, for example. ACC also seems relatively disengaged from some of the important choices its partners could take to prevent injury (eg, in enforcement of workplace safety regulation, in understanding the calculations the New Zealand Transport Agency uses to reflect the cost of severe road injury, and in the balance struck between demerit points and fines in encouraging safer driving).

While ACC can be effective in working with its partners to leverage its investments, it needs to be careful not to be seen as only being prepared to partner on its own terms. It needs to work with all those who have a role in this area and can bring something to the table. We were surprised how little engagement there is with some key players in the Health sector, for example with the Health Quality and Safety Commission over treatment injury. Effective partnering requires an understanding of what the partner is seeking to achieve and a bit of give and take. While the Accident Compensation Act requires ACC to invest only where it can show a return to the scheme, this is being interpreted as a return on the whole portfolio of activity which expands this scope for give and take.

Finally, ACC’s wider ‘leadership’ role in injury prevention is not clear to the external people we spoke with, or even to ACC’s people. ACC is in a unique position to provide real leadership in this area:

- As highlighted above, ACC has a moral imperative to respond to this issue given the loss of the right to sue and the impact of that on incentives to take care and invest in injury prevention
- ACC has the data. For example, because claimants typically approach clinicians in the first instance and there is at least the prospect of compensation, the ACC dataset is much more complete on issues that are typically under-reported to other agencies, (eg, Police for sexual or family violence)
- ACC has a direct incentive to reduce injury because the costs arrive in its accounts, albeit this incentive is muted as levies can be increased to cover costs
- ACC is the only agency with a responsibility across the whole injury prevention spectrum because all people in New Zealand are covered where they live, work and play.

No one else in government is as potentially well placed, although we are unsure whether ACC is up for the challenge. That has to start with greater clarity about ACC’s leadership role and has to be supported by more attention inside ACC to the analytical and partnership ‘building blocks’ it needs to put in place to be able to effectively execute a system-wide leadership role.

To improve its rating on injury prevention, we would like to see a substantial reduction in the incidence and severity of injury – and resulting costs to the scheme – as a result of the effective implementation of a well thought through injury prevention strategy. That strategy needs to be based on good use of data and a system view that includes consideration of a broader range of interventions. We encourage a wider consideration of regulatory structures, industry and individual incentives and a better framework for selecting the right interventions in each situation. We would also like to see a more systematic approach to involving branch staff in local initiatives, especially in those areas where the underlying causes of high injury rates are most prevalent. Finally, we would like to see much richer analysis of available data to generate a common understanding across agencies of the risks and vulnerabilities faced.

To achieve all of this, ACC will need to develop a more systematic, predictable and consistent approach to partnering with other government and non-government agencies.

|  |   |
|--|---|
| <b>Core business 2: Levy setting and collection</b>            |   |
| Performance Rating (Effectiveness): <b>Needing development</b> |  |
| Performance Rating (Efficiency): <b>Well placed</b>            |  |

ACC collected \$4.7 billion levies and appropriations in five accounts in the year ended June 2013. Three of these accounts (the Earners’, the Work and the Motor Vehicle accounts) are levied directly by ACC. Much of the levy revenue is raised through existing channels such the motor vehicle licence, a levy on petrol and through Inland Revenue for wage and salary earners (and therefore is relatively cheap to raise). There was a government appropriation of \$1.2 billion into the Non-Earners’ account and the Treatment Injury account is mixed funded.

The aim is to fully fund the levied accounts by 2019 and ACC has already largely achieved that target in the Work and Earners’ accounts. Levy rates are now decreasing. The Motor Vehicle account is approaching being fully funded and levies are being reduced now.

Levy payers are the group with the lowest level of trust in ACC (with a Net Trust Score of -64%). Levy volatility and predictability is a central concern of this group. While the consultation process around levy setting seems robust, there are issues with the annual levy setting process that were discussed in the Four-year Excellence Horizon section and are a matter for Government.

However, ACC also has a messy process for managing day-to-day functions including levy collection activities of assessment and billing for self-employed and smaller businesses. In particular, ACC relies on Inland Revenue data to calculate the levy and tax filing dates meaning that information can be considerably delayed. For example there can be a three year delay between a business being established and ACC being able to issue an invoice, and a business can receive three sets of levies at the same time.

ACC will consider how it can improve processes around levy collection and assessment. One option, for example, might be for ACC to take a direct feed from payroll systems rather than waiting for Inland Revenue data releases. If that were so, employer invoices could be final rather than estimates, could be more timely and employer queries could be reduced.

It can also be difficult for levy payers to understand what they are paying for in terms of cover and entitlement, the basis of their levy calculation and what they can do to reduce that cost. Without this understanding, the ACC levy appears to be more like a tax than an insurance premium delivering value for money.

ACC is pricing risk in some levies, with the Work Account in particular heavily risk rated. ACC is dealing with accredited employers to reduce costs and incentivise safe work behaviour. ACC is also taking the opportunity to introduce risk weighting based on crash data to the Motor Vehicle Account. Although risk rating is a blunt instrument, when used appropriately, levies can signal risk taking and can modify behaviour. We believe there is a case to examine introducing levies in the health sector around treatment injury. At the same time, risk rating is not a complete answer and is best used in concert with other regulatory activity and awareness raising.

Debt provisioning is automatically generated based on about 30 pools of different types of employer (from large through to self-employed) and the time debt has been outstanding. The rates used are periodically reviewed based on experience. There is a very problematic delay, due to the tax filing dates, in getting information that affects recoverability. Debt provisioning on larger employers has gone from 1.17% to 0.87% in the past year, and from 5.34% to 5.12% for the smaller employers (with the revenue in the large employer pool being about four to five times that in the smaller pool). The proportion is changing as more large employers have entered the accredited employer scheme, thus are no longer paying levies and the payments they make for the old residual claims reduces. The debt provision is moving down although the provision for smaller employers seems high.

In the 2013 Annual Report, Levy Debt Write-off as a proportion of total expected revenue in the Work Account was 1.69% versus a forecast of 1.5% and 2011/12 actual of 1.3%. ACC attributes this increase in debt write-off to the GFC because of the considerable delays in invoicing and recovering debt (ie, the amount written off can be some years old). ACC uses debt collection agencies, but could be more active in taking further action if the debt is not collected.

Current performance is adequate in terms of the funding objective but falls well short in terms of the experience of levy payers. To improve this rating, ACC would need to address the issues that undermine levy payers trust and drive up the Net Trust Score to ACC's target of zero in three years.

|   |   |
|---|---|
| <b>Core business 3: Investment management</b>     |   |
| Performance Rating (Effectiveness): <b>Strong</b> |  |
| Performance Rating (Efficiency): <b>Strong</b>    |  |

ACC manages \$27 billion of assets which makes it as large as the New Zealand Superannuation Fund and a large New Zealand financial institution. The assets are held to cover the future cost of claims, so the objective is to offset as much of the risk in the value of the claims liability as possible through matching and to earn a benchmark return or better on these assets.

ACC matches assets to liabilities as best it can, although clearly there are not many assets with the same longevity as ACC’s liabilities. This mismatch has been dealt with by ACC in two ways. First, where there is a mismatch, it takes a limited amount of risk and appears to earn a good return for taking that risk.

The investment team is a major asset while benefiting from the fact that it does not have to meet the liquidity requirements or match the investment horizon of other funds managers and can take a longer term view, including of risk.

Secondly, to its credit, the ACC investment team has actively sought alternative asset classes that might match its future risk. The most innovative transaction it has been involved in is participation in the funding of the New Zealand Transport Agency’s Transmission Gully highway project.

On the long-term funding side, there may be other natural hedges in the Crown’s overall balance sheet (eg, long lived roading or power generation assets with reasonably predictable yields) although assessing and exploiting these hedges and reflecting that back to ACC in the right way is more a question for the Treasury than it is for ACC. Further, ACC has one of the few Crown liabilities that correlates with economic performance; most increase with poor performance (such as job seeker costs in Vote Social Development, which increase with unemployment rates).

One area to improve is cash management. We are aware the financial controller function is looking to implement a business intelligence tool to introduce a much needed rolling 12-month forecasting capability and this will much improve cash flow management.

This area demonstrates a high level of capability and sustained and consistently high levels of performance. It is building future capability and uses external benchmarking to continually evaluate and improve performance. In short, it meets the PIF standard for a ‘strong’ rating.

The only concern raised with us was key person risk. In some ways, key person risk is in the nature of the business. Investment teams are small and highly person dependent. The judgements formed in taking risk in a managed way require judgement from a team with leadership and experience in financial markets. While there is no doubt the team would be weakened if key members left, additional bench strength has been built in the last few years.

|  |   |
|--|---|
| <b>Core business 4: Claims management</b>                      |   |
| Performance Rating (Effectiveness): <b>Needing development</b> |  |
| Performance Rating (Efficiency): <b>Well placed</b>            |  |

### **Different claims are rightly managed in different ways**

The total number of registered claims was 1.7 million in the year ended June 2013 and the claims management activity employed 68% of staff. Approximately 93% of those claims were minor claims that were actioned with straight-through processing, effectively under delegation to clinicians and other providers. For instance, a claim may have been lodged for an injury through a visit to a general practitioners clinic; if minor there would likely be no direct contact between the claimant and ACC. The remaining 7% of claims is a mix of weekly compensation claims, long-term injury claims, serious injury claims, sensitive claims and fatal claims.

A major area of risk for ACC arises from the number and duration of weekly compensation claims. ACC has managed itself around pools of claims; up to 70 days, a 273 day pool then to 912 days (managed by a specialist group). The aim of the short-term claims group is to make sure treatment is available, the relationship with the employer is maintained and there is prompt return to full time work. The longer the claim, the less likely there will still be an employer. Some injuries will have different consequences for work categories eg, a broken leg will matter much more and will complicate a builder's return to work than an office worker. In the past, claimants have tended to cascade through the pools (eg, 30% of the 70 day or less pool transfers to the next pool, and to a different case manager). ACC has recently introduced an assessment unit to better position clients within these pools. This means that claimants who are likely to stay on the scheme for more than 70 days receive the right intensity of attention from day one and are also more likely to stay with a case manager from the beginning to the end of their experience.

Serious injury claims are another major long-term cost to the scheme to the extent that each serious injury cost generates its own liability projection. There were only about 200 of these claims in the last year and the number varies between 200 and 250. The claims are small in number but very large in cost and over the life of the client can cost the scheme millions of dollars. There are substantial issues in how these clients are managed because of the complexity and longevity of their cases. Often the goal is a return to independence with work as a possible proxy for that independence. For example, a broken neck resulting in paralysis may mean 24-hour care and expensive life maintaining equipment as well as regular related health events for the remainder of that person's life.

There are claims with a special nature, such as sexual abuse claims. These claims are managed through a revised sensitive claims process.

### **Substantial issues from a claimant's perspective**

There are a number of significant issues in claims management, many of which ACC has identified, in its recent client research:

- These issues start from the first touch point a client has with ACC. We heard that a claimant may receive a letter acknowledging a claim is covered and a later letter saying that, although covered, there is no entitlement to benefits under the scheme. Many people assume that cover implies entitlement and so expectations are raised, and decisions may be taken on that assumption, only to be disappointed or worse when the second letter arrives.

- A claimant will need to be his or her own navigator through ACC. The claimant may telephone a call centre and then be directed to claims management in a branch or service centre for entitlement issues or through to a travel group for travel claims or to a further and different group for calculation of weekly compensation. A claimant will often have to call multiple points in the organisation. It is not atypical for a client to have multiple touch points to the organisation. We are informed ACC research has measured 30 to 40 touch points for some clients, although we would expect this large number of touch points to be atypical.
- Claimants may have to wait a long time for decisions about coverage and entitlement, with the uncertainty and cost delay this implies for their working, treatment and rehabilitation. This is particularly the case where the injury requires medical input. This lack of timeliness affects both claimant trust and wellbeing by raising anxiety levels, as well as increasing cost to the scheme by effectively extending the duration to resolve the issue. The issue may not be progressed as a medical issue until it is clear whether or not it will be accepted as an injury.
- A material number of decisions are contested either by claimants (or clinicians and private insurers on their behalf) and of those decisions, 15% are not decided in favour of ACC. There are many reasons and one material reason is confusion around what is degeneration versus injury. In some instances, ACC may have evidence of prior injury on file but may not then take that injury into account when assessing for degeneration. Further, the decision may not be notified to the claimant in an empathetic manner, with an explanation of reasons.
- As the claimant continues their journey with ACC, the claimant may be declared functionally fit, but his or her employment may or may not remain. After a long period of time, the likelihood is the claimant will be job seeking. At this point, the client is removed from the scheme (as is appropriate) but the nature of the handover to the Ministry of Social Development /Work and Income depends on the claims manager in ACC and on the person taking over the case at the Ministry of Social Development.

Some of these issues look as if they might be easily addressed. For instance, we were informed there is no common customer service model in ACC and customer service is treated in different ways in 13 different functional training programmes. We envisage it would be reasonably easy for ACC to standardise around one customer service model. We observe that working hours are not set in a way that best suits claimants or providers. Without generalising to all claims managers, many claims managers appear to work flexi hours and keep within set hours with the result that claimant and provider access tends to be restricted to office hours. Further, there is no delegation for call centre operators and limited delegation for claims managers so even small decisions such as clearance of a small claim cannot be dealt with at the first point of contact. For those near the end of ACC entitlement and looking for work, it would seem relatively easy to organise earlier engagement with the Ministry of Social Development with a view to reducing the number of those claimants moving straight onto welfare.

ACC is relatively inactive in mining complaints and other data that give clear indications of claimant issues. The complaints and review processes, and court actions are a vital source of information in all industries to look and understand what is happening. At 2% or more of Gross Domestic Product, the scheme is large and complex enough that it may warrant mimicking some of the complaint mechanisms in other sectors such as the Electricity and Gas Complaints Authority.

### **A story of variability**

As a result of these issues, claimants are unhappy because of a lack of timeliness, a sense of unfairness due to a lack of transparency and high co-ordination costs. This story is amplified by reported variability in case manager performance. Some clients experience excellent service from case managers whereas others will experience poor service and performance from their case manager.

Further and substantial variability is introduced by clinicians and rehabilitation providers (ie, different clinical decisions, costs and client outcomes for the same injury and client condition). While some variation is expected there is little systematic effort to work with clinicians, professional bodies or provider groups to reduce harmful, ineffective or costly outlier behaviour.

ACC procures from a regulated schedule; if clinicians are registered, they can claim against the schedule. Different occupational classes are subject to different rules for the number of visits against an allowable schedule (eg, a physiotherapist is subject to a limited set number of visits whereas an acupuncturist is able to claim up to 100 visits). Even within physiotherapy, some will offer more sessions for an injury and outcomes will differ but not necessarily in a direct relationship to the number of visits. Some surgeons may have more of a preference for earlier surgical intervention than others and some clinicians might prefer more emphasis on non-surgical interventions, at least until surgery is more clearly going to produce a better client outcome. As an example of an attempt to reduce some of this variation in an area of treatment, ACC developed a protocol for establishing whether shoulder cuff injuries were ACC or health related. The protocol was developed with and owned by the New Zealand Orthopaedic Association. However, the protocol is not used by orthopaedic surgeons in applications to ACC, or by all ACC branches in assessing the 20% of claims that come through the branch network, so variation continues.

The end result is inevitably unnecessary variation amongst providers at all levels from provision of short interventions for minor injuries, to issuing of medical certificates in general practice, to relative numbers of applications for surgery after a first specialist assessment, to results from those interventions including different results between intervention classes for the same injury as with variation of results within the injury class, and with differences in the direct treatment and duration of the claim. There was anecdotal evidence of this variation in our interviews and ACC is aware of some variation but largely only through claiming behaviour and not clinical behaviour.

In rehabilitation, ACC has moved to a limited supplier model with a reduced number of lead contractors and on the face of it this seems a good step to improve quality of outcome and reduction of variability. However, some interviewees reported that feedback from contractors and some others is of mixed results. For example, some innovative service providers (such as those with non-mainstream service delivery, specialist disability focus or complex needs focus) have been obliged to sub-contract and reduce their specialist service offering whilst increasing their transaction costs in many instances, or have withdrawn from the market after introduction of lead contractors. In these types of circumstances, both quality and level of innovation can be reduced for those with the highest types of rehabilitation needs. Variation of performance does not appear to have reduced. Having said that, the overall impact of the lead contractor initiative is hard for us to assess because different groups have come to different conclusions.

From the perspective of levy payers rather than claimants, the cost of surgery varies greatly and this cost may or may not relate to complexity (nor would ACC know as data is collected at intervention level and not with information about complexity).

Where costs increase with complexity, there is a growing problem of niche providers specialising in the treatment of low acuity cases and yet being paid on the basis of the cost of an average acuity case ('cream skimming'). This threatens the economic viability of those providers who provide care across the acuity spectrum. Left unaddressed, this risks driving private providers out of caring for the harder cases.

### **ACC procurement is not focused on encouraging consistent high quality outcomes**

ACC procurement strategies help shape the market and yet have not had the aim of reducing variation, improving quality or paying for outcomes. Rather than focus on outcomes, procurement encourages activity (for example, fee for service, or bulk funded contracts with no outputs or outcomes specified).

Better value for money would be achieved if ACC used case estimation techniques to generate standard costs and expected duration, organised by complexity, with quality measures and payment for outcomes. Ideally, providers should be paid for providing consistent, high quality outcomes rather than contracts that might be administratively efficient but not necessarily optimal for clients. Much of the health sector hospital cost is charged through as a bulk funded contract. Outcomes on elective surgery are not priced. While the current system is easy to manage, ACC has no basis for knowing if it is getting value for money in either case.

ACC appears distant from health sector developments aimed at providing more integrated care. A great deal of effort has occurred in the health sector to reduce barriers to access, to speed medical recovery and reduce costs to patients (including patient waiting times and faster access to care). One of the key initiatives has been development of evidence based clinical pathways. Within general practice, we understand that approximately 100 pathways could describe the bulk of the ACC business. Part of increasing transparency, timeliness and improving consistency of customer experience requires clinicians to set the standard around how different patients with different conditions should be managed throughout the patient's journey – from diagnosis to treatment and recovery. Guidance could be given at points in the clinical decision making to guide whether or not an injury is ACC relevant.

In serious injury, ACC needs to be very active in monitoring the outcomes, costs and quality issues in service delivery. This active monitoring needs to start at the point of injury and continue to the ambulance (whether by air or road), to the medical destination and then through the claimant's road to recovery of independence. There are clear issues in this journey at present such as a lack of clarity over the destination for the seriously injured leading to, sometimes, an inappropriate transfer from road ambulance to base hospital to tertiary centre. In later feedback, we understand ACC and the Ministry of Health may be working through this issue but it is clear from providers it has not been resolved yet. Further, rehabilitation needs to start in the hospital as soon as the client is medically stable which we understand from interviews is not always the case.

ACC could help encourage a greater focus by providers on improving the customer experience by giving providers who met certain standards more discretion to achieve agreed outcomes for patients (eg, standards like applying clear and up-to-date clinical pathways owned by professions, with open discussions on managing variation with clinical colleges). We understand that the health sector is well advanced with developing a similar approach and would see real value in ACC aligning itself with these developments. We also understand that some providers are ready to at least trial outcome based contracting for rehabilitation. Again, in managing variation, ACC needs to get more connected with clinician oriented change processes such as the Health Quality and Safety Commission's Atlas of Variation project.

Claims intelligence could improve with greater connection between health systems and ACC and with greater use of e-commerce. At present, ACC is relatively distant from the possible intelligence it could gain by close analysis of its claims. For instance, it would be possible to collect time stamping at point of first connection in a general practitioner clinic to the time of first specialist assessment and to the time of surgery.

Actuarial processes are appropriate in terms of measuring whether accounts are funded but are siloed and not endemic in the way ACC manages and assesses claims and procures services. There is a connection between actuaries and the financial controller function but the connection is neither strong nor deep. We would like to see a deeper connection between actuaries, bio-statisticians, economists and analytical financial management.

Relationships with providers and clinicians are also discussed under 'External Relationships' below. For clarity we summarise here that we would like to see a more evidence- and outcomes-based focus that would underpin a trust based relationship, with active engagement around areas that cause complaint. With providers, we would like to see more partnering around issues that affect claimants, with a view to supporting better rehabilitation outcomes in particular.

### **The role of Third Party Administrators (TPAs) as a learning mechanism for ACC**

It is very important the TPAs continue for a portion of ACC's business. There is no clear other benchmark for ACC (although there are some weak comparisons with Australian schemes). The TPAs therefore are important to help ACC becoming a learning organisation that maintains its customer-centricity in the face of conflicting pressures. The value of TPAs as a comparator would be enhanced if ACC could extend their scope beyond accredited employers (ie, if ACC would use TPAs more extensively).

Specifically in managing the Earners' Account, there is some empirical and anecdotal evidence that claims managers in TPAs working in partnership with employers are more effective than those in ACC. When part of the accredited employer's scheme, employers are incentivised to do right by employees in rehabilitation as well as minimising opportunistic claiming behaviour. TPA case managers appear to be more active in working with the employer (although better costing information is required to ensure that comparisons are valid). Some TPAs appear to outperform ACC in terms of ACC's own measures of weekly compensation days paid and duration (70 day rate) although others do not.

The role of the TPAs is under threat for two reasons. First, ACC is not able to measure the cost of processing a claim and therefore isn't able to measure cost avoided. Secondly, as the levy falls, the incentive for companies to manage the risk reduces. However our interviews suggest that the ACC levy is only one factor and many employers are more interested in retaining their skilled and experienced staff and keeping them at work, even if on light duties.

### **ACC has identified many of these issues**

ACC is aware of these issues. There is a client service optimisation stream that introduced the needs assessment process. KPIs are being changed for case managers. SOF provides a diagnostic by patient archetypes and a range of survey results. A conceptual organisation design is in place and a Chief Customer Officer is being introduced. Detailed planning is about to begin.

What we would like to see in future is that all claimants get what they are entitled to, that claimants experience consistency in decision making on cover and experience consistent, quality medical and rehabilitation interventions. We would like to see transparency and clarity around entitlements including a resolution of issues relating to degeneration. We would like ACC to focus more on outcomes than activities, engage clinicians actively in evidence based discussions and provide point of claimant advice and decision support. From the claimants' perspective they will want to experience a seamless service, well coordinated, with information about what they can expect and the likely duration and treatment pathway for their injury. If all of this happens, the scheme will improve by virtue of appropriate duration rates being achieved, much stronger rehabilitation rates and a substantial reduction in variation. Disputes will be few.

## ORGANISATIONAL MANAGEMENT SECTION

This section reviews the agency’s organisational management. The questions guide Lead Reviewers to current and future and performance. Final judgements and ratings are informed by the scope and scale of the performance challenge.

### Part One: Leadership, Direction and Delivery

#### Purpose, Vision and Strategy

How well has the agency defined and articulated its purpose, vision and strategy to its staff and stakeholders?

How well does the agency consider and plan for possible changes in its purpose or role in the foreseeable future?

Performance Rating: **Well placed**



#### Leadership and Governance

How well does the senior team provide collective leadership and direction to the agency?

Performance Rating: **Well placed**



#### Values, Behaviour and Culture

How well does the agency develop and promote the organisational values, behaviours and culture it needs to support its strategic direction?

Performance Rating: **Needing development**



#### Structure, Roles and Responsibilities

How well does the agency ensure that its organisational planning, systems, structures and practices support delivery of government priorities and core business?

How well does the agency ensure that it has clear roles, responsibilities and accountabilities throughout the agency and sector?

Performance Rating: **Needing development**



#### Review

How well does the agency encourage and use evaluative activity?

Performance Rating: **Needing development**



Overall, ACC knows its purpose and most of what it needs to do to succeed. Most of what it needs to do is reasonably clear and has been done elsewhere. Success will, however, require the successful transformation in ACC's operating model foreshadowed in SOF. This transformation is in plan and the diagnostic stage is complete, but execution has significant implications for culture, structure, roles and responsibilities. ACC needs to overcome self-referencing behaviour that re-asserts itself when competition is lacking. Substantial changes are required in all these elements because ACC is starting with low trust and confidence scores.

Discussion of ACC's Purpose, Vision and Business Strategy is covered in detail in the Four-year Excellence Horizon section of this Report and is not repeated here. In summary:

- a While ACC's purpose is clear, the vision and expression of that purpose in the targets adopted by ACC need to better reflect what it now aims to achieve. While most of this is under active consideration, the challenge is to better align the financial and customer trust objectives and reflect that alignment through the culture, the KPIs and the performance management system.
- b The business strategy outlined in the Statement of Intent has shortcomings and, while most are being addressed, more attention needs to be given to improving the dynamic elements of performance, strengthening partnership capability and injury prevention performance.

The Board offers strong leadership to management and, as a first step, has appointed a chief executive who has a very clear sense of what needs to be done and the ability to communicate that in an inspiring way. The Chief Executive has developed a high level organisation design and the senior team that will take ACC forward has recently been announced (ie, with two significant new appointments – the Chief Operating Officer and the Chief Governance and Strategy Officer). The fact that so much progress has been made in diagnosis and in preparing for the necessary changes even without the new team in place gives us confidence in leadership and governance, although change management capability is under-developed.

We have rated these dimensions 'well placed' because ACC Board and management are clear about what the organisation needs to do, have invested heavily in assessing future demands and are taking action to address most of the shortcomings in strategy that we have identified. ACC is not 'strong' on these elements because it has not yet demonstrated high levels of performance on both financial and customer metrics at the same time. Because the senior team is not yet in place, it is unable to demonstrate high levels of collective performance. Moreover, ACC needs to give more attention to the three elements of its strategy mentioned in (b) above.

The next three elements of this dimension are all rated 'needing development', which reflects some of the challenges ACC will face both in executing its strategy and in staying customer-centric when other priorities demand attention. While there are some critical areas of weakness here, most are being actively addressed in a systematic way (with Review needing more attention than it is currently getting).

Management recognised that ACC culture, values and behaviours need to change to become more outward focused and reinforce the importance of customer- and partner-centred behaviour 'when no-one is looking'. The new values we have seen should help achieve this objective. While the current set of values could drive these behaviours, they are less clear and have become inwardly-focused (e.g., we were told that 'Honouring people as people' was originally focused on customers as people but has gradually become more about how people treat each other inside ACC). Becoming more customer-centric will require giving greater discretion to frontline staff to respond to individual situations. That can only be reconciled with simultaneously improving the consistency and predictability of the customer experience if there is an 'ACC way' that everybody understands and accepts as the right way to behave.

The cultural issues are easy to identify but more difficult to analyse and particularly to address. We comment as follows:

- The culture is curiously obedient and reflects the KPIs. There is, we observe, seemingly a more direct line from senior management to the front line via KPIs than via middle management. There are some major consequences to this culture - one being the organisation can turn on a pin. In the past, this ability to change direction quickly has assisted with the quick turnaround of the scheme financially but has also added to the pendulum effect felt by claimants
- The organisation needs to make client centricity an 'and' rather than an 'or'. Selection of KPIs is paramount. Currently behavioural 'competencies' are set alongside quantified and objectively measured outcome KPIs in individual performance agreements. When these conflict, there is a natural tendency to weight outcome KPIs that are clearly specified and objectively measured over the more subjective behavioural aspects of performance. We suggest changing to an assessment process that does not allow good outcome performance to compensate for poor behaviours (eg, a two-step process that requires a minimum behavioural standard to be met before outcome KPIs are considered).

We have been puzzled by the difficulty of introducing a change to a 40 hour week (from 37.5 hours) given the very strong motivation frontline staff have to doing right by their clients. We would expect an overall higher level of commitment to clients based on the expressed value base. We would expect more from an organisation widely recognised as rewarding its staff as well as ACC does. For example, a more partner and customer-centric organisation would be more accessible with extended hours.

The appointment of a Chief Operating Officer with responsibility for IT and customer service, as well as the Chief Governance and Strategy Officer with responsibility for developing cross-agency partnerships, are structural and role changes that clearly reflect the priority on customers and partners. The Chief Operating Officer role should also free up the Chief Executive to lead the required transformation and build strong partnerships without losing control of financial performance or taking the leadership team's eye off 'business as usual'. ACC is about to enter into a organisation design phase that will identify roles, responsibilities, structures and decision rights in more detail.

More work needs to be done in aligning the customer and financial objectives of the organisation, in communicating that alignment and reflecting it in processes and practices (eg, in the performance management system). ACC's people often feel a real tension between the financial and customer goals of the organisation and that needs to be resolved for them and better reinforced in performance management.

More work also needs to occur in changing processes and practices so that they support frontline enthusiasm to deliver better service (rather than the frontline feeling they are frustrated by process, systems and tools). Processes, systems and practices have to better support:

- More tailoring to deliver outcomes that better meet individual needs while providing a more consistent and predictable service (ie, while solutions are better tailored to individual circumstances, the same case would be treated in the same way no matter when or where that case presented to ACC). That will require action across a number of fronts. More and more effective frontline discretion and decision making is essential and that will require greater definition of the boundaries of discretion, accountability and decision rights; decision making support; and professional development and leadership of frontline staff to help ensure that discretion is applied in a consistent way. It will also require more consistent clinical decision making and all that implies for helping clinicians identify and reduce variation in clinical practice (eg, through the

application of agreed protocols and patient pathways). More thought also needs to be given to the potential for budget holding by clinical organisations, or even claimants themselves, to better meet individual needs within a consistent framework

- Seamless end-to-end customer service, with less siloed activity which means less delay and fewer handover issues the customer has to navigate. There needs to be more straight-through processing of cases that are easily decided, more electronic channels for customers and providers to use, less need to repeat information and more help in navigating the more complex issues that require the involvement of different areas within ACC.

ACC has just completed a substantial diagnostic of its customers. There is also some ongoing evaluative activity in ACC, with a dedicated group that develops research and evaluation programmes in key areas (although better use might be made of that work). ACC also does some benchmarking against 'similar' workers compensation schemes in the Australian states (ACC tends to do better but comparisons are complicated) and against the performance of TPAs (ACC tends to do worse).

However, this is not enough to keep ACC outwardly customer focused when other priorities demand attention. Because ACC is a monopoly it does not get the sort of intense and continuous feedback on what matters to customers and how best to meet customer needs that it would if it had to compete for premium income. The 'voice' mechanisms (ie, the complaints and review process, the voice of the customer groups, the media, courts and Ministers) are relatively blunt and sporadic alternatives. If ACC is to become really customer-centric and then maintain that centrality when other demands press upon it, then it needs to find a way of better mimicking the effect of competition. We suggested in the discussion of 'Core Business 4: Claims Management' that a much larger role for TPAs would help achieve this goal. That would require an investment in improving financial management (especially in ACC knowing its cost to serve so that it was able to compare the cost of third party administration with its own costs and, therefore, make value-for-money comparisons). It is telling that the best performing area of ACC is its fund management, an area where benchmarking is relatively easy and competition an effective discipline.

Change management capability has also been commented on at length in the Four-year Excellence Horizon and clearly needs improvement, especially in light of the substantial change programme ahead. A number of people we spoke to also commented that ACC "did not do anything quickly."

## ORGANISATIONAL MANAGEMENT SECTION

### Part Two: External Relationships

|   |   |
|---|---|
| <b>Engagement with the Ministers</b>  |   |
| How well does the agency provide advice and services to Ministers?  |   |
| Performance Rating: <b>Well placed</b>  |    |
| <b>Sector Contribution</b>  |   |
| How effectively does the agency work across the sector?   |   |
| Performance Rating: <b>Needing development</b>  |    |
| <b>Collaboration and Partnerships with Stakeholders</b>   |   |
| How well does the agency generate common ownership and genuine collaboration on strategy and service delivery with stakeholders and the public? |   |
| Performance Rating: <b>Needing development</b>  |  |
| <b>Experiences of the Public</b>  |   |
| How well does the agency understand customers' and citizens' satisfaction?  |   |
| Performance Rating: <b>Needing development</b>  |  |

Overall, this is the weakest area of the four aspects of organisational management. While generally well placed with Ministers, sector relationships are typically under-developed and under-leveraged (especially in injury prevention where they are particularly important). The Net Trust Scores of providers are very low and, while there are some signs of recent improvement, our interviews reinforced this point. And while public trust and confidence has been improving, the members of the public that deal with ACC as levy payers or claimants have very low Net Trust Scores.

ACC maintains good relationships with its Ministers and overall Ministers have a high regard for ACC's performance. Some of the drivers for this generally positive relationship are ACC's improved financial performance in recent times; the steps ACC has taken to reduce privacy breaches and the corresponding reduction in the frequency and seriousness of those breaches; and a reduction in reviews and complaints. Ministers recognise that many of the features of the scheme make it difficult to meet public expectations (see Four-year Excellence Horizon section above) and are keen to see ACC successfully address the trust and confidence issues it faces. ACC's increased openness and consistency in how it deals with claimants helps. However, more needs to be done before these relationships could be graded as 'strong'. There would need to be a real lift in public and consumer trust and confidence. Ministers would also like to see more leadership in the injury prevention area. Moreover, they can sometimes feel too distant from emerging investment decisions that affect their

ownership interest. Because ACC is a Crown entity, they can also feel overly exposed to public criticism of operational decisions that are the responsibility of the Board (especially when the Board or management fail to respond adequately to that criticism)

ACC has a number of very important relationships across government including:

- Ministry of Social Development /Work and Income – in regard to common clients and as government users of the actuarial approach
- Ministry of Health, District Health Boards and other health sector agencies – the public and private health sectors provide services to ACC clients
- WorkSafe New Zealand – in relation to injury prevention activity
- Police and the Ministry of Justice – in relation to injury prevention in areas such as family violence
- New Zealand Transport Agency, Ministry of Transport and Police – in relation to injury prevention on the road
- Ministry of Business, Innovation, and Employment and the Treasury – in regard to policy, legislative and performance issues for the scheme
- The agencies involved with Better Public Services Result Areas 9 and 10 – in relation to achieving these Government targets
- Inland Revenue – in regard to levy payer information
- NZ Super Fund – with the investments area in ACC.

In the past ACC has not had strong connections with other government agencies. It has been regarded as operating in isolation and engaging sporadically and on its own terms. The situation has improved in the past few years and a number of cross-agency initiatives are in planning or early stages. For example an across government injury prevention work-plan is exploring information sharing between agencies as the basis for designing and targeting initiatives.

There is a close working relationship emerging between ACC and WorkSafe New Zealand, helped by cross-board membership (eg, WorkSafe and ACC are designing a Safety Star rating system for employers). ACC has also been very helpful in supporting the Ministry of Social Development's use of actuarial information to help make Work and Income more effective (helped again by cross-board membership). Some past collaborations with the Ministry of Health have delivered improved outcomes (eg, ambulance funding and spinal cord injury treatment). ACC has also signed up to be part of the government precinct in Canterbury.

There are, however, important areas where performance would need to improve for ACC to be 'well placed' and some of these will take time to put in place. Effective across agency collaboration is particularly important in injury prevention and the discussion of that activity above pointed to a number of weaknesses in sector contribution. Similarly, delivering the Better Public Service targets was rated as 'needing development' and much of that comes back to the effectiveness of sector collaboration. The relationships with the central agencies, especially the Treasury and the Ministry of Business, Innovation and Employment, need to be based on clearly defined roles, open and proactive information sharing, and a collaborative and trusted style.

## External Relationships

We would expect a much closer working relationship with the Ministry of Health to address some long standing issues (in elective and emergency services funding) as well as working more closely in engaging with clinicians on treatment protocols and in reducing clinical variation; improving quality and safety and reducing treatment injury; and improving rehabilitation services for both ACC and Ministry of Health clients – to name but a few areas where closer collaboration would prove fruitful. Rather than cooperation and collaboration, we often observed in interviews with counterparties an absence of relationship, a cautionary approach or even some annoyance.

There is also some scope for working more closely with the Ministry of Social Development to reduce the risk that claimants move off earnings related compensation and onto welfare benefit (and to improve the rehabilitation outcomes for beneficiaries who do not qualify for ACC). The ACC PIF Self-review notes a tendency for ACC to focus on its own priorities, with room to improve the breadth and depth of joint planning and activity with other agencies.

The weakest element in ACC's external relationships is 'collaboration and partnership with stakeholders'. While collaboration with other agencies in the sector is mixed, the degree of common ownership and genuine collaboration with providers and levy payers is typically weak, which is reflected in the Net Trust Scores of these groups.

The discussion in 'Core Business 4: Claims Management' identified some areas of critical concern in terms of the current relationship with providers and clinicians. ACC is still some distance from forming genuine trust-based relationships with active engagement around areas that cause complaint and with a much more evidence- and outcomes-based focus. With providers, we would like to see much more partnering on issues that affect claimants, to support better rehabilitation outcomes in particular. Speed of decision and transparency of entitlement will help ACC in its relationships with providers and clinicians.

While ACC is working to improve its stakeholder relationships, there is much more to do and we wonder about the degree to which ACC is fully aware of the poor quality of many of these relationships. Many of the stakeholders we spoke too were quite weary of their dealings with ACC (and some providers had withdrawn from the market) and yet in assessing its own position ACC seemed to rely on surveys and advisory groups that did not reflect the degree of weariness we heard. Indeed, that weariness was more consistent with the net trust scores reported above. Because ACC is a monopoly with its own dedicated revenue stream it can be self-referencing and survive, however it will not meet its performance challenge without a significantly better performance in this area.

ACC has established groups to help it better understand the perspectives of stakeholders, including the Consumer Outlook Group, Older Persons Advisory Group and Serious Injury Advisory Group (that advise ACC on service design and delivery) and the Advocates and Representatives Group (that advises ACC on policy, legislation and strategy). These groups report improved engagement with ACC, albeit from a low base (eg, responses from management might take six weeks when they used to take up to two years). Some consumers and groups still report it is difficult to deal with ACC because the organisation is siloed and it can be difficult to negotiate the various business units, even for claimants with a case manager. ACC has also moved to establish a medical directorate which we believe will greatly enhance the standard of debate and improve the credibility of ACC in the eyes of clinicians.

We found it difficult to settle on a rating for this dimension because there are elements of 'weak' and 'needing development' in assessing current performance against what is required to meet the performance challenge. There are significant areas of weakness and limited awareness of the degree of weariness amongst some stakeholders in dealing with ACC. On the other hand the development and new focus on the Net Trust Scores (which do reflect this weariness); the better quality of

engagement with the various groups ACC has established to provide stakeholder input; and the establishment of the medical directorate are all actions that will lift performance. While 'needing development' is probably right on balance, management need to give this area the attention that a 'weak' rating would imply.

ACC undertakes a range of regular customer satisfaction surveys with mixed results. A particular concern is the trust and confidence ranking which at December 2013 was second lowest among New Zealand public sector agencies. This report has already noted the effect of ACC's varying focus on either the customer or scheme financial performance. The customer view is the impetus for the SOF programme and proposes to deliver an operating model and organisational effectiveness that will improve customer experience. Some of the key elements of SOF will include client-centricity in account management, devolution of responsibility to claims managers (with more consistent decision making), information, communications and technology systems capable of supporting a client portal and revised KPIs. At the same time ACC is introducing a public value framework of performance targets that will measure ACC's contribution to New Zealand. As already noted we support the diagnosis and the proposed objectives of the SOF programme.

## ORGANISATIONAL MANAGEMENT SECTION

### Part Three: People Development

#### Leadership and Workforce Development

How well does the agency develop its workforce (including its leadership)?

How well does the agency anticipate and respond to future capability requirements?

Performance rating: **Needing development**



#### Management of People Performance

How well does the agency encourage high performance and continuous improvement among its workforce?

How well does the agency deal with poor or inadequate performance?

Performance rating: **Well placed**



#### Engagement with Staff

How well does the agency manage its employee relations?

How well does the agency develop and maintain a diverse, highly committed and engaged workforce?

Performance rating: **Needing development**



Overall, performance on these dimensions is mixed and addressing the cultural issues covered in 'Leadership, Direction and Delivery' above is a precondition for improved people performance. While staff have plenty of development opportunities, workforce planning is still underdeveloped. The performance system encourages strong performance on KPIs, and the latest ratings suggest an ability to discriminate between strong and weak performance. Some managers struggle in dealing with poor performers and staff experience varies with the individual manager. Engagement appears satisfactory but the relationship with the union is unproductive.

ACC is well regarded by its employees. Employees we met consistently reported good training and other learning opportunities (especially on-the-job development opportunities). Many had been with ACC for a long time. Some had left school with no training and had advanced a long way in ACC by taking the development opportunities offered. Frontline staff have a strong calling to do the best for clients. They also take pride in being part of a unique no-blame social insurance scheme.

HR recognises the need for workforce planning and is moving to put this framework in place. That work should more clearly identify the capability gaps that development needs to close. An overall organisation development and workforce planning strategy is still to be developed. Training and development is currently delivered in a fragmented manner. Work practice manuals, job descriptions and other aspects of the HR system need to be modernised. Career and learning pathways need to be developed for critical roles. There needs to be more consistency in the induction process.

As a first step, ACC is centralising its training capacity and is focusing on implementation of a learning academy. The learning academy will provide leadership and technical training for the organisation. The technical training will start with a training qualification in claims management and will be provided through a tertiary institution. The first tranche of trainees is this year.

Working conditions are good. Pay rates are benchmarked in the top quartile of the public sector. There appeared to be a strong flexi-time culture amongst the frontline people we talked to.

HR has introduced both a new system of remuneration, recognition and rewards (R3) and a reporting system to better monitor a series of critical activities to help reduce management variation. The HR database will now monitor whether objectives have been set for employees, whether they have been reviewed and performance against objectives. ACC is moving from a four point scale of performance to a five point scale largely because of a skew to higher performance levels that was felt not to be discriminating enough. The new five point scale has produced a range of ratings that appears more discriminating and closer to a normal bell curve. There are still issues of management consistency in assessment. In particular, in interviews we noted a mixed approach by managers to what was regarded as 'partially achieved' versus 'achieved'.

Gallup reports high levels of staff engagement. Having said that, the levels of engagement reflected in the Gallup result may have been increased by a perception from some staff their pay is related to their team's Gallup score. In a recent survey of culture, many expressed frustration they were not given the tools to work with. We experienced very variable levels of contentment in the focus groups with some groups positive and others negative about the issues they faced in getting the job done.

There are several challenges in the management structure:

- There has been a very high turnover in the senior management team and that turnover looks to continue as a new organisation structure emerges through the detail design stage. Two new significant appointments have just been made. After that, we believe there will be a great deal more stability in the senior team after turbulent times. The Chief Executive makes a good impression with staff and with external stakeholders
- ACC management at middle levels is variable. Our focus groups indicated there are a range of experiences of middle management ranging from excellent to mediocre. ACC recognises the importance of this level of management and intends to engage it early in the roll out of SOF.

SOF identifies the proposed changes are as much about changing culture and training as about systems. To this end, it recommends considerable role redefinition and retraining to support the vision of a customer-centric organisation. The culture change at branch level will, however, need be larger than we would have expected.

The union relationship is very old fashioned. The relationship is oppositional rather than constructive. The introduction of the new remuneration, recognition and rewards system (R3) was poorly handled with a last minute introduction of the change in hours (discussed above) a matter that ought to have been non-controversial but instead left a bad taste. The direction of the revised remuneration scheme appears to be appropriate but, like many management issues, these and staff reading of them are path dependant. Management expects staff to take up the new remuneration scheme when the advantages become apparent but staff will be taking the new contract for the wrong reasons – extra pay rather than a change in working practice.

## ORGANISATIONAL MANAGEMENT SECTION

### Part Four: Financial and Resource Management

|   |
|---|
| <b>Asset Management</b><br>How does the agency manage agency and Crown assets, and the agency balance sheet, to support delivery and drive performance improvement over time?                       |
| Performance Rating: <b>Strong</b>    |
| <b>Information Management</b><br>How well does the agency manage and use information as a strategic asset?  |
| Performance Rating: <b>Needing development</b>   |
| <b>Improving Efficiency and Effectiveness</b><br>How robust are the processes in place to identify and make efficiency improvements?<br>How well does the agency evaluate service delivery options? |
| Performance Rating: <b>Needing development</b>   |
| <b>Financial Management</b><br>How well does the agency plan, direct and control financial resources to drive efficient and effective output delivery?  |
| Performance Rating: <b>Well placed</b>   |
| <b>Risk Management</b><br>How well does the agency manage its risks and risks to the Crown?   |
| Performance Rating: <b>Needing development</b>   |

Overall, it is no surprise that this is the strongest of the four aspects of organisational management given that ACC is one of the largest financial institutions in New Zealand.

The major asset managed by ACC is the investment portfolio of \$27 billion. ACC's performance in the management of this asset is discussed in Core Business 3 above, where we rated it as 'strong'. In short, ACC is proactive in finding ways to better match the risks in its portfolio and generates above benchmark returns on its assets.

ACC's non-financial assets are primarily software, computer hardware and leasehold improvements. ACC asset management maturity was assessed as suitable in a November 2011 review commissioned by the Treasury.

ACC is a very large volume processor of claims and levies and as such is heavily dependent on its information technology systems. A review of the current state of core information technology systems was conducted in late 2013 by consultants taking both a business continuity and functionality view. The reliability of systems was assessed as good. However the under investment and ageing technologies of ACC's older systems is adding complexity to system operations and increasing the risk profile. This can affect other systems, especially the Eos claims processing system, because of the interconnected nature of the systems. There was feedback from the frontline that systems performance is a considerable frustration, resulting in regular downtime in their work. A recent desktop upgrade has improved the situation somewhat but there are still problems with the core applications. Thus, the major issue for the non-financial asset portfolio is planning for information, communications and technology, with ACC's 2012 Information Systems Strategic Plan to be updated with the information, communications and technology aspects of the SOF programme, which are currently being scoped.

ACC holds very large amounts of information, particularly in its claims records. This can be a rich resource to drive decision making and investment. However there are several issues. The first issue is what is collected and how it is organised. Currently much of the information is organised by claim, and it can be difficult to mine client, employer or provider information. There is limited metadata associated with much of the information and some claims from providers are still received manually, creating data capture issues and limiting the information fields collected. Identifiers such the National Health Index number are often not collected and if they are they cannot be easily used in analysis. There is currently no corporate document management system but there are plans to utilise an all-of-government solution.

Another issue is how the information is used. For example information can be extracted by the actuaries and analysed using various tools. However currently there is limited dynamic use of this analysis to inform decision making at the frontline, to target or to develop new approaches.

The exchange of information with other government agencies to assist the targeting of injury prevention or to further all-of-government goals is also currently limited but the recently developed across government injury prevention workplan sets out four areas where information will be shared between agencies. This is a good development. Holding information also raises privacy issues for ACC. As noted it has done well to largely overcome privacy issues, although this has been very manual with a heavily reliance on costly checking processes, so while effective it is also very inefficient.

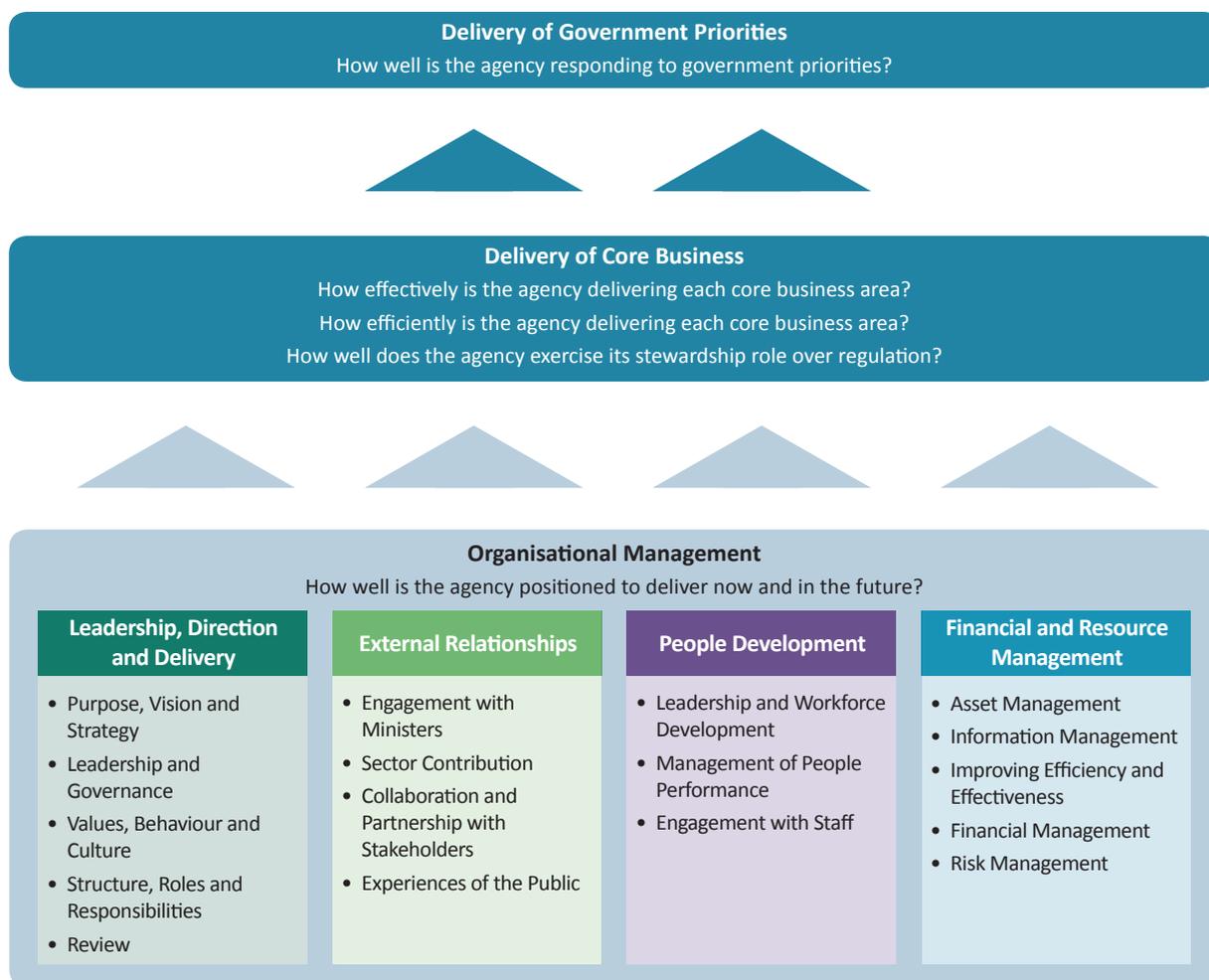
As an insurance corporation, ACC is focused on the overall management of its assets and liabilities and the relationship between them. The annual Financial Condition Report describes ACC's overall financial management well. At the next level ACC has sound forecasting, budgeting and cost control measures and its internal control environment is rated well. There has been an excellent focus (with the Treasury) on developing appropriate KPIs to demonstrate public value and for other areas in the service agreement. The next step is to cascade these through the business to replace existing measures.

An important area for attention is in better understanding cost drivers, cost to serve different segments and the cost of different products. This understanding is central to improving efficiency and effectiveness (eg, in considering the scope for outsourcing such as to TPAs, in channel optimisation and improving product mix). For example ACC needs to understand the cost of a claim in the Short Term Claim Centre or allocated to a claims manager, and their relative effectiveness, to develop a more full picture of claims estimation before it can form a considered view about product costing.

ACC has a maturing risk management framework with a three lines of defence model in place. Structures include the Board Audit and Risk Committee, the Executive Risk Committee, the risk function and the assurance function. There is regular reporting of strategic and operational risk. This is a comprehensive framework but it seems to have caused some lack of ownership and management of risk through the business. For example the privacy breaches in 2011 were a surprise to ACC and there have been recent examples such as a client consent form found to be inappropriate. There needs to be a greater richness in risk identification, ownership and management. As discussed earlier, customer feedback and complaints are a rich source of data and should receive greater review as a source of information on risk. It will also be important that there is no loss of focus on risk as ACC's undertakes its transformation programme.

# APPENDIX A

## Overview of the Model



## Lead Questions

### Results

| Critical Area         | Lead Questions   |
|-----------------------|--|
| Government Priorities | 1. How well is the agency responding to government priorities?             |
| Core Business         | 2. How effectively is the agency delivering each core business area?       |
|                       | 3. How efficiently is the agency delivering each core business area?       |
|                       | 4. How well does the agency exercise its stewardship role over regulation? |

### Organisational Management

| Critical Area                      | Element  | Lead Questions   |
|------------------------------------|--|--|
| Leadership, Direction and Delivery | Purpose, Vision and Strategy                     | 5. How well has the agency articulated its purpose, vision and strategy to its staff and stakeholders?<br>6. How well does the agency consider and plan for possible changes in its purpose or role in the foreseeable future?   |
|                                    | Leadership and Governance                        | 7. How well does the senior team provide collective leadership and direction to the agency?<br>8. How well does the Board lead the Crown entity? (For Crown entities only)   |
|                                    | Values, Behaviour and Culture                    | 9. How well does the agency develop and promote the organisational values, behaviours and culture it needs to support its strategic direction?   |
|                                    | Structure, Roles and Responsibilities            | 10. How well does the agency ensure that its organisational planning, systems, structures and practices support delivery of government priorities and core business?<br>11. How well does the agency ensure that it has clear roles, responsibilities and accountabilities throughout the agency and sector? |
|                                    | Review   | 12. How well does the agency encourage and use evaluative activity?  |
| External Relationships             | Engagement with Ministers                        | 13. How well does the agency provide advice and services to Ministers?   |
|                                    | Sector Contribution                              | 14. How effectively does the agency work across the sector?  |
|                                    | Collaboration and Partnerships with Stakeholders | 15. How well does the agency generate common ownership and genuine collaboration on strategy and service delivery with stakeholders and the public?  |
|                                    | Experiences of the Public                        | 16. How well does the agency understand customers and citizens' satisfaction?  |
| People Development                 | Leadership and Workforce Development             | 17. How well does the agency develop its workforce (including its leadership)?<br>18. How well does the agency anticipate and respond to future capability requirements?   |
|                                    | Management of People Performance                 | 19. How well does the agency encourage high performance and continuous improvement among its workforce?<br>20. How well does the agency deal with poor or inadequate performance?  |
|                                    | Engagement with Staff                            | 21. How well does the agency manage its employee relations?<br>22. How well does the agency develop and maintain a diverse, highly committed and engaged workforce?  |
| Financial and Resource Management  | Asset Management                                 | 23. How well does the agency manage agency and Crown assets, and the agency balance sheet, to support delivery and drive performance improvement over time?  |
|                                    | Information Management                           | 24. How well does the agency manage and use information as a strategic asset?  |
|                                    | Improving Efficiency and Effectiveness           | 25. How robust are the processes in place to identify and make efficiency improvements?<br>26. How well does the agency evaluate service delivery options?   |
|                                    | Financial Management                             | 27. How well does the agency plan, direct and control financial resources to drive efficient and effective output delivery?  |
|                                    | Risk Management                                  | 28. How well does the agency identify and manage agency and Crown risk?  |

## APPENDIX B

### List of Interviews

This review was informed by input provided by a number of ACC staff, relevant Ministers, and by representatives from the following businesses, organisations and agencies.

| Agency/Organisation                                |
|--|
| Aon New Zealand                                    |
| Auckland University of Technology                  |
| Automobile Association                             |
| Bain & Company                                     |
| BRR  |
| BusinessNZ   |
| Department of Internal Affairs                     |
| General Practice New Zealand                       |
| Information Integrity Solutions                    |
| Inland Revenue Department                          |
| John Miller Law                                    |
| Massey University                                  |
| MercyAscot   |
| Ministry of Health                                 |
| Ministry of Social Development                     |
| MSH Consulting                                     |
| New Zealand Orthopaedic Association                |
| New Zealand Police                                 |
| New Zealand Transport Agency                       |
| Patients First                                     |
| Physiotherapy New Zealand                          |
| Privacy Commissioner                               |
| ProCare  |
| Public Service Association                         |
| PwC New Zealand                                    |
| Royal New Zealand College of General Practitioners |
| Southern Cross Healthcare Group                    |
| St John New Zealand                                |
| University of Auckland                             |
| WorkSafe New Zealand                               |

