

The Treasury

Briefing to the Incoming Minister for ACC

March 2023

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TE TAI ŌHANGA
THE TREASURY

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February 2023

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1 Your responsibilities, and how the Treasury assists you

This briefing provides further information on your role as responsible Minister for the Accident Compensation Corporation (ACC) and how the Treasury supports you as performance advisor in the role. It supplements briefings you will receive from the Ministry of Business, Innovation and Employment (MBIE) as your policy advisor, and ACC as the Crown agent tasked with delivering the Scheme.

1.1 Your responsibilities and key opportunities to influence

As the Minister for ACC, you are responsible for the strategic policy framework, legislation and regulations that form the basis of the Accident Compensation Scheme (AC Scheme).

Your key opportunities to influence ACC's strategic direction and performance expectations, annually, are through the Letter of Expectations and signing off the Service Agreement with the Board. Your Letter of Expectations is usually provided to ACC between October and January, to enable ACC's business planning. The ACC Board subsequently provides the Service Agreement to you at the end of April. This allows you to sign off on the Board's proposed performance expectations.

The following table outlines the key documents to expect.

Accountability documents	Timing
Letter of Expectations	November
Statement of Intent	April/May (as required)
Service Agreement	April/May
Annual Report	Sept/Oct
Performance reports	
Quarterly Reports	November, February, May, August
Valuation Reports	December, June
Financial Condition Report	November/December (expected)
Other	
CFI Half-Yearly Reports	September, March
Performance Improvement Framework	As required
Board Appointment Documents	As required

The board appointments process

Governance is the responsibility ACC's board, which is appointed by Ministers, subject to Cabinet approval. The Board operates at arm's length from Ministers to develop the overall strategy for ACC and appoint a chief executive officer, to whom they delegate management

decisions to implement the strategy. Given the arm's length model, the **two most important levers** available to Ministers to influence the performance of entities and companies are the:

- appointment of effective boards
- annual business planning and reporting process.

A high performing board with the confidence of Ministers is a critical enabler for strong Crown Entity performance. Membership of a high performing board needs a balance of capabilities, skills and experience, and diverse perspectives that work well together to drive performance of the company or entity.

As responsible Minister, you are responsible for appointing directors to the board.

The Treasury's Governance and Appointments team follows the Cabinet Approved Appointment process providing advice, administrative and nomination support throughout this process, and prepares the Cabinet documentation to confirm appointments.

In providing this advice the Treasury considers:

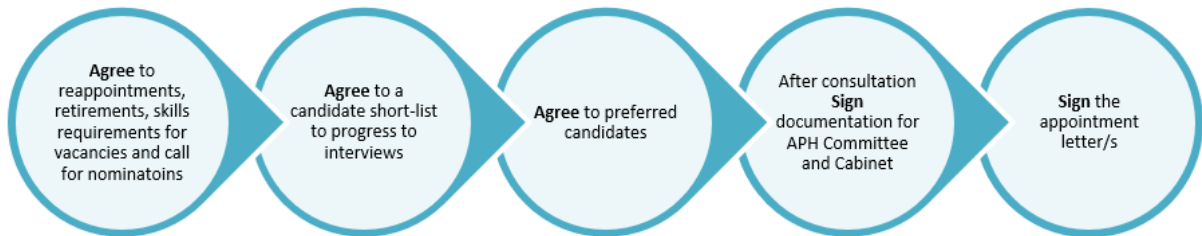
- member composition across the board – ensuring there is a mix of capabilities (governance and executive level experience, skills, and backgrounds), and demographic diversity such as gender, age, ethnicity, and perspectives to achieve portfolio objectives
- director capabilities as outlined in Treasury's Board Governance Capability Framework, giving consideration to whether members have the required:
 - a. **Crown portfolio alignment** - demonstrates awareness of context, understanding of own motivations, and commitment to requirements
 - b. **Skills, Knowledge & Experience** - the expertise that a director brings to the role, and their understanding and applications of practical and theoretical information
 - c. **Behaviours, Attributes and Characteristics** - disposition that shapes a director's responses and behaviours
- ACC specific goals in the Letter of Expectations, strategic objectives (current and future), and priorities
- ACC's leadership and organisational performance results
- views of the current chair and entity monitors, skills assessments, recent board evaluations, and reviews of the board
- available opportunities for early-stage directors and/or future directors.

Increasing both demographic diversity and wider diversity has been a key focus for appointments to Crown boards. Nominations and expressions of interest are sought from:

- You and your caucus colleagues
- Chairs
- nominating agencies across government
- the public notification of vacancies through the Treasury's database of 6000+ candidates,

- advertising the vacancy on LinkedIn, through CommunityGovernanceNZ website, the Super Diversity Institute membership, Infrastructure New Zealand LinkedIn page and other community or industry groups where particular capabilities are sought.

Treasury will engage you throughout the board appointment process and ask for your input and to make decisions at five points as outline below.



Appointments occur throughout the year, and can be driven by the board’s composition, term end dates, the length of time directors have been on boards, and whether board members seek reappointment or resign, for example due to changes in their circumstances. A typical appointment round can take five to seven months, from identifying upcoming vacancies, working with the chair to develop the capabilities and skills profile and calling for nominations, to new board members commencing in their role.

The initial term for newly appointed directors is usually three years. Directors are typically reappointed for a further three years if they have performed well and their skills remain relevant. Directors may be reappointed for a third term in exceptional circumstances and there is no maximum number of terms a director can serve.

1.2 ACC's form

ACC is a statutory Crown entity, established by the Accident Compensation Act 2001 (AC Act), and is a Crown agent governed by the Crown Entities Act 2004 (CE Act).¹ Crown entities operate at arm's length from Ministers. You are able to direct ACC in certain respects; however, this is a mechanism that we would advise only using in exceptional circumstances. Regular reporting and relationship meetings are better means to ensure strategic alignment between the Board and yourself, and to achieve a common understanding of entity performance.

You are the sole responsible Minister of the organisation, although certain sections of the AC Act require the authority of the Minister of Finance. These are generally in relation to ACC's management of investment assets to support a full-funding approach.

You have responsibilities under the CE Act to provide oversight of the overall performance of ACC. This is achieved primarily through regular reporting and the relationship with the ACC Board, particularly with the Board Chair.

Crown entities can be required to report on performance to Parliament and to select committees. ACC appears regularly given its crucial role in delivering services to New Zealanders and its significance to the Crown's accounts.

The Crown entity system relies on Ministers, monitoring advisors (the Treasury's role) and entities working well together. Responsibilities are set out in the Crown Entities Act², and in guidance material issued by the Public Service Commission³, which expects:

- clear roles and responsibilities
- strategic alignment
- trusted engagement
- efficient and effective monitoring.

The Board has primary responsibility for ACC's performance

Crown entity boards are the governing bodies of their organisations. In response to Ministerial expectations, and in accordance with legislation, the Board of ACC:

- sets strategy
- sets and monitors key performance indicators to provide evidence of efficiency and effectiveness and assure the long-term sustainability of the Scheme
- is responsible for financial management and associated reporting.

¹ Other relevant legislation includes the Public Finance Act 1989, and the Public Service Act 2020.

² See sections 27 and 27A for the Minister's and Monitor's roles, and sections 49-52 for the Board's role.

³ *It Takes Three: Operating Expectations Framework for Statutory Crown Entities*, SSC, July 2014.

You can also expect the Board and management of ACC to engage constructively with you and officials, and to work collaboratively with other public entities, to achieve wider Government goals.

Crown entity boards are expected to have good practice self-monitoring processes in place to assess the individual and collective performance of Board members and identify opportunities for development.

In the short term, you may wish to have a discussion with the Board Chair on the Government's expectations for ACC. Over the medium term, you may wish to:

- meet regularly with the Board Chair to discuss performance and strategic direction
- invite the Board to provide advice on its proposed strategy and priorities before these are included in a draft Statement of Intent or Service Agreement
- provide written comments, or enter into discussions with the Board, on draft Statements of Intent or Service Agreements before they are finalised.

The Treasury can support you with these activities.

There is also a standard expectation for quarterly performance reporting to support ongoing performance discussions outside of the Service Agreement process.

ACC is responsible for delivering the AC Scheme

ACC is responsible for efficient and effective delivery of the injury prevention, rehabilitation and compensation functions of the AC Scheme to ensure its long-term sustainability on behalf of all New Zealanders and overseas visitors.

The Treasury looks at ACC's functions through two lenses, firstly by monitoring Scheme governance and performance (the operational side), and secondly through monitoring ACC's investment function. The Treasury maintains a good working relationship with ACC officials through this dual monitoring approach.

ACC is required to prepare accountability documents

The Accident Compensation Act 2001 requires ACC to prepare a Statement of Intent at least once every three years and enter into a Service Agreement annually. The Statement of Intent represents a medium-term outlook for ACC's strategic direction. ACC's most recent Statement of Intent was agreed in 2020 for the period 2021 to 2025, and the next Statement of Intent is due in April 2023 for the period 2023-2027.

ACC will submit its Service Agreement for 2023/24 to you in April 2023. Following feedback from you to the ACC Board, ACC will formally publish it by June 2023. The Service Agreement consists of a series of intentions, performance targets and financial forecasts. It also outlines ACC's plan to deliver its strategic objectives.

These documents are two of ACC's three core accountability documents (the third being the Annual Report). As the Minister for ACC, you need assurance that the Board is setting

appropriate stretch targets that enable transparency of how ACC defines good performance and monitors progress towards its achievement.

In addition to these, the Chief Risk and Actuarial Officer prepares an annual Financial Condition Report for the Board in relation to levy rates. As Minister for ACC you are required to submit both this report, and the annual report, to Parliament, before the reports are subsequently published. This reporting ensures there is transparency about the cost drivers and risks to ACC's liability arising from factors such as external economic fluctuations, policy changes, and Court decisions. The Treasury uses this report to support its assessment of ACC's financial sustainability.

'No surprises' policy

Under the 'no surprises' convention, the boards of Crown entities are expected to:

- be aware of any possible implications of their decisions and actions for wider government policy issues
- advise the responsible Minister of issues that may be discussed in the public arena or that may require a Ministerial response, preferably ahead of time or otherwise as soon as possible
- inform the Minister in advance of any major strategic initiative.

This includes information required to answer parliamentary questions, information required by/for parliamentary select committees, and information required for Budget and appropriation processes.

1.3 The Treasury monitors the performance of ACC

The ACC Board is the primary monitor of ACC's performance. The Treasury represents the Crown's ownership interests in ACC, and provides independent analysis, commentary and judgement to you and the Minister of Finance on governance and performance of ACC.

The Treasury works closely with ACC's finance function to understand performance and works across the executive to understand ACC's operational delivery. The Treasury and MBIE work collaboratively to identify where policy opportunities may exist due to changing trends in performance. We also collaborate on advice for levy setting and forecast changes for the Non-Earners' appropriation.

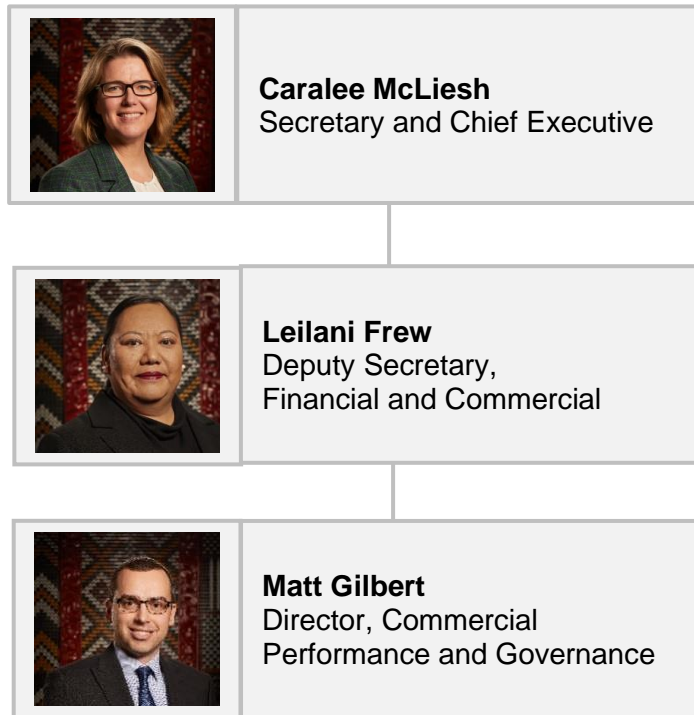
We hold multiple roles relating to ACC, as summarised in the following table, and aim to provide a consistent presence to Ministers. The Minister of Finance has a particular interest in ACC's financial results because of the impact on the Operating Balance Before Gains and Losses (OBEGAL) and the Crown's balance sheet.

Function	Responsible Minister	Comment
Performance monitoring	Minister for ACC	Advice copied to the Minister of Finance
Board appointments	Minister for ACC	Advice copied to the Minister of Finance
Governance and performance of ACC as a Crown Financial Institution	Minister of Finance	Advice copied to the Minister for ACC, eg, Ministerial approvals or advice on ACC's responsible investment policy
Policy and fiscal advice to the Minister of Finance	Minister of Finance	Advice copied or forwarded to the Minister for ACC, eg, should Ministers choose to communicate the Crown risk appetite to ACC

Advice provided directly to the Minister of Finance that could be relevant to you in executing your Minister for ACC role would be either:

- copied directly to you, or
- recommended to be forwarded to you by the Minister of Finance.

1.4 Key Treasury contacts



2 Upcoming decisions and key areas of interest

We would like to engage with you on a range of key decisions and key areas of interest. These relate to legislative requirements, your manifesto priorities, and other priority issues. Below is a summary of some of the key areas of interest. We will soon provide you with a more detailed list of these issues and proposed timeframes for engagement.

2.1 Board appointments

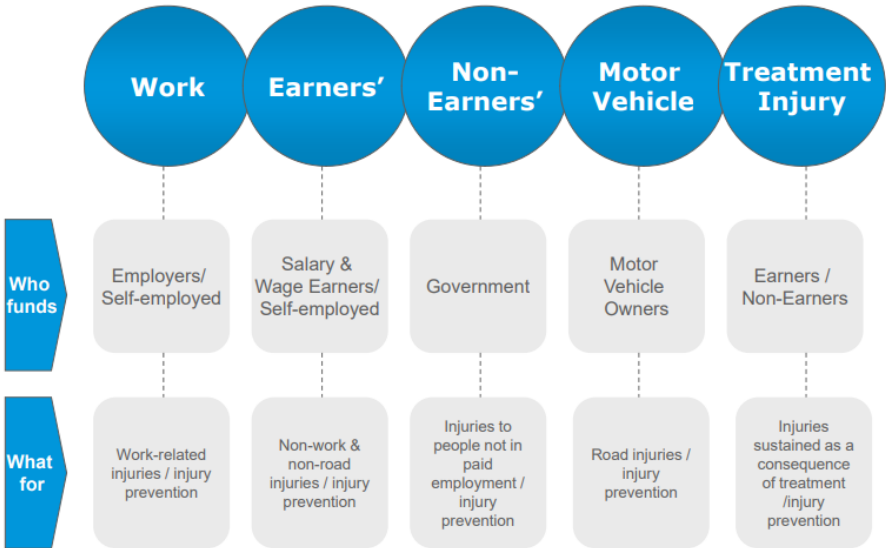
The Treasury is the lead advisor to you on ACC Board appointments. [33]

[33]

2.2 Levies – process and strategy

ACC has five accounts, three levied, one funded through Government appropriations and a fifth account funded through both levies and Government Appropriations. Diagram 1 below contains an outline of the accounts.

Diagram 1: ACC’s five accounts



ACC's funding framework allows for transparency for ACC's funding and the levy-setting process, while enabling greater certainty and stability of funding over the medium to long term.

Current funding policy

The current funding policy for ACC was agreed by Cabinet in April 2021. The policy sets out that the levies and appropriation for each account should meet the cost of new-year claims being added to the liability. It reflects the principles of financial responsibility as specified in the AC Act, including that large changes in levies should be avoided.

In addition to the funding policy, Cabinet agreed to a new three-yearly levy review cycle, which began in 2021, the next Levy round will take place over 2024. The review cycle includes public consultation on policy scope and funding levels for the levied accounts. No decisions are required until early 2024 on the process and approach to the levy funding round. However, the Treasury is able to support you with any advice prior to 2024 should you wish to engage at an earlier stage.

2.3 New Zealand Income Insurance Scheme

On 4 July 2022, Cabinet considered the key policy decisions that defined the parameters for design of the New Zealand Income Insurance Scheme (CAB-22-MIN-0250.02). This included agreeing ACC will administer income insurance and be accountable for the delivery of the New Zealand Income Insurance Scheme (NZII Scheme) outcomes. Ministers have agreed that income insurance will take effect in April 2025, with final policy decisions, including the introduction and passing of the Income Insurance Bill into law, currently planned to be completed in 2023 subject to Cabinet agreement in early 2023.

The Treasury is the lead advisor to you on the performance of the NZII Scheme and how it impacts the AC Scheme. From a monitoring perspective, the Treasury is working alongside ACC and MBIE to monitor the implementation of the potential NZII Scheme and how it impacts on ACC's day-to-day operations. This includes any impacts on ACC's ability to effectively deliver on the AC Scheme (including potential improvements to rehabilitation outcomes through a greater return to work focus).

Following the finalisation of this briefing, the Government announced on 8 February 2023 that it will not be progressing the New Zealand Income Insurance Scheme in its current form, including the legislation that was previously planned.

We recommend early engagement with the Minister for Social Development and Employment to emphasise the critical importance of the relationship between ACC and MSD in implementing a sustainable NZII Scheme. The Treasury can support you with advice to support that engagement.

2.4 ACC's strategic shift

Since 2014, ACC has progressed its significant transformation programme called 'Shaping our Future' (SOF). The key purpose of the SOF programme was to redesign and transform the ACC operating model to improve delivery of core services and outputs to customers. The programme's overall objective was to improve trust and confidence in ACC, and it has recently been implemented by ACC through the Integrated Change Investment Portfolio (ICIP). ACC is progressing towards an ICIP delivery completion by 30 June 2023, after which the Treasury will provide you with advice to support your report back to Cabinet.

Huakina Te Rā

The ACC Board has approved a new ten-year strategy called Huakina Te Rā. This new strategy is a significant shift and embeds ACC's proactive Te Tiriti focus. The strategy takes a dual-framed approach for tāngata whenua and tāngata Tiriti, with an emphasis on rehabilitation. ACC has set itself ambitious medium-term goals which will require new and updated measures to ensure appropriate performance tracking. The Treasury is working with ACC to ensure that these measures are appropriate and will provide advice to you in April 2023 on how the new strategy is reflected in the annual Service Agreement.

Huakina Te Rā is also outlined in the 2023-27 Statement of Intent, which your office will receive a draft of by April 2023. As the strategy constitutes a significant shift for ACC, this is an area you may wish to pay particular attention to. The Treasury is available to discuss the strategy and ACC's ability to implement and measure the goals and expectations in it.

Annex One: ACC's Board

Member	Start date	End date	Region	Skills
Hon Steve Maharey (Chair)	1 May 2021	30 April 2024	Manawatu-Whanganui	Governance, leadership, communication, financial management, public and commercial sectors, stakeholder engagement
Dr Tracey Batten (Deputy Chair)	1 Feb 2019	30 Jun 2024	Auckland	Qualified medical practitioner, education/ health insurance/ medical technology/supply sectors, CEO experience in complex hospital groups, strategy creation and execution, mergers and acquisitions
Sandra Alofivae	11 Apr 2022	31 Mar 2025	Auckland	Legal, Pasifika networks, public sector and not-for-profit governance experience
Pat Bowler*	1 Feb 2021	30 June 2023	Wellington	Legal, strategy, statutory obligations, complex litigation
Mark Cross	1 Aug 2021	30 Jun 2024	Auckland	Investment banking, acquisitions, divestments, mergers, IPOs, debt restructuring, capital structure reviews, valuations and general advisory
David Hunt	1 Sep 2021	30 Jun 2024	Wellington	CE experience energy sector, economic analysis/advisory, merger and acquisition
Dr Helen Nott*	1 Feb 2021	30 Jun 2023	New South Wales	Insurance, large scale transformation, data analytics, strategy
Bella Takiari-Brame*	1 Feb 2021	30 Jun 2023	Waikato	Regulated industries, treasury, bonds, bank financing, audit and risk, Māori connections

* These positions are currently under consideration as their terms expire in 2023.