

The Treasury

Briefing to the Incoming Minister for ACC

December 2020

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TE TAI ŌHANGA
THE TREASURY

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1 Your responsibilities, and how the Treasury assists you

This briefing provides a summary of the Treasury's monitoring role as it relates to the Accident Compensation Corporation (ACC). 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.

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 ACC 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 near the start of the fiscal year, 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.

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 be used 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, and in particular the Board Chair.

As with government departments, ACC is expected to observe the 'no surprises' convention in its dealings with you and your advisors. Crown entities can be required to report on

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

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 CE 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.

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 expectation for ACC.

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

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

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.

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

ACC is responsible for delivering the Scheme

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

The Treasury works closely with ACC to understand Scheme performance.

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 2018 for the period 2018 to 2022, and the next Statement of Intent is due in April 2021.

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.

Further information on ACC's accountability documents can be found in Annex Two.

ACC has also submitted its Service Agreement for 2020/21 in September 2020, following feedback by the Minister for ACC to the ACC Board. The Service Agreement consists of a series of intentions, performance targets and financial forecasts. It outlines ACC's plan to deliver its strategic objectives through to 2024.

For context, ACC has experienced continued growth in claim volumes and costs in recent years. Claims now exceed two million new claims annually, although the period of the COVID-19 lockdown presented a period of much lower volumes. At the same time, rehabilitation performance has declined in areas such as the volume and duration of weekly compensation claims, increase in care hours and growth in long-term claims. ACC has invested in its systems, to support case management practice and the development of a health services strategy. The benefits of this investment are expected to drive improved management information so that ACC is able to respond where costs are controllable, or communicate insights where trends are less controllable.

'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.

1.1 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.

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.

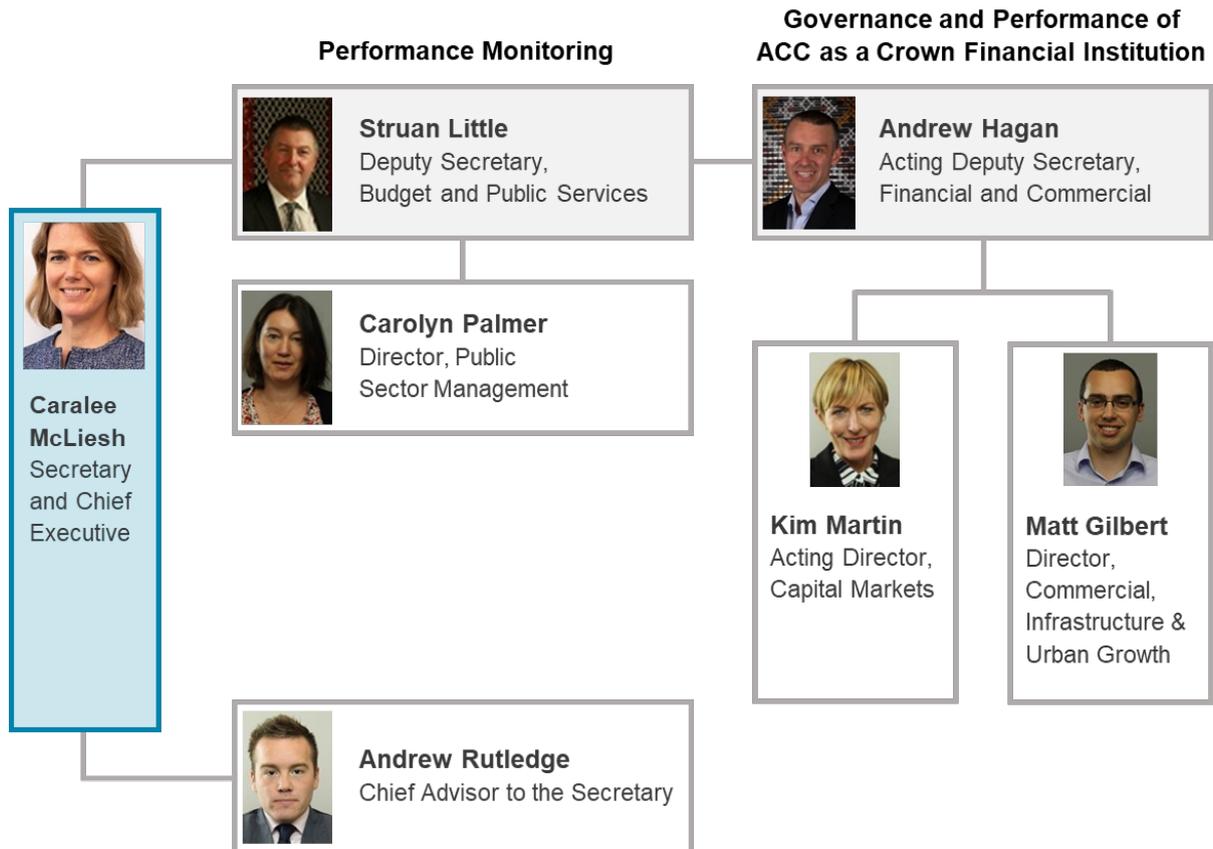
We hold multiple roles relating to ACC, as summarised in the following table, and aim to provide a consistent presence to Ministers. The Minister of Finance has a particular interest in ACC's financial results because of the impact on the Operating Balance Before Gains and Losses (OBEGAL) and the Crown's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

1.2 Key Treasury contacts



2 Matters of current interest

Board appointments

Managing Board stability, confidence and capability is the primary focus of the Treasury currently. [34]

Further information on the Board composition can be found in Annex One.

We will provide you with further information about progressing appointments.

Levy review – process and strategy

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

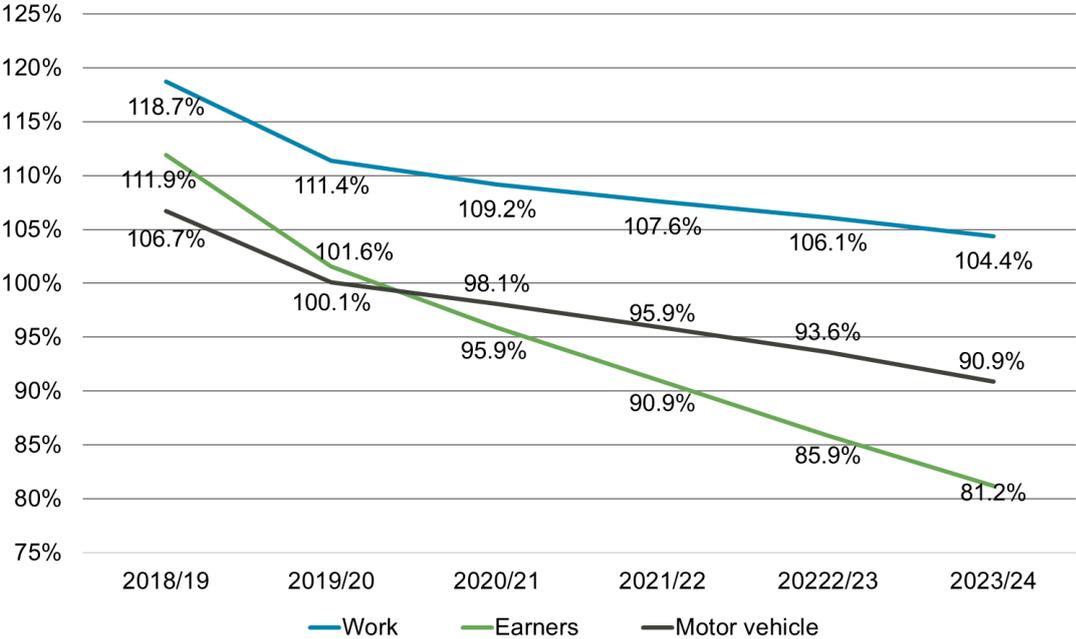
The current funding policy for ACC was agreed by Cabinet in November 2019. The policy sets out that the levies and appropriation for each Account should meet the cost of new-year claims being added to the liability. It reflects the principles of financial responsibility as specified in the AC Act, including that large changes in levies should be avoided.

The policy sets out a funding target of 100% of liabilities for the Levied Accounts, excluding a risk margin. This means levies are expected to increase or decrease to return accounts to a 100% funding ratio over 10 years. The purpose of this is to smooth economic volatility while moving directionally to cover risk of under-/over-funding in the short term.

[33]

ACC’s Levied Account funding ratios are forecast to decrease without a funding increase, as highlighted in the following graph.

Figure 1: Projected levied account funding ratios with no levy increases (as at 30 June 2020)



The drivers of this continuing trend are i) lower interest rates, indicating lower expected investment returns in the medium term, and ii) levies already being lower than the long-run equilibrium rate. Levies are relatively low as the accounts were in a state of over-funding prior to a sharp change in economic indicators.

As interest rates decrease, the size of the liability in today’s dollars increases. ACC’s assets offer a partial hedge on this valuation movement, but the liability tends to move three times faster than assets in current conditions.⁴ This is expected to create a funding gap between assets and liabilities.

The funding policy provides flexibility to adjust slowly to changes in interest rates. However, where there is a prolonged movement in one direction, such as the decrease seen in recent years, ACC’s assets will be drawn on to cover for the shortfall in levy price. Levies will have to increase in the future to compensate the fund for this drawdown and any opportunity cost of foregone investment returns.

ACC, MBIE and the Treasury propose to provide advice by the end of 2020 on levy decisions to be made in 2021. This advice will provide further information on the underlying drivers of ACC funding pressure and the levers Ministers hold to balance ACC entitlements and affordability for all New Zealanders.

⁴ This rate of change will accelerate if interest rates reduce further. However, should the interest rate curve increase then the liability valuation will also decrease at a faster rate than assets, meaning the net funding gap would close.

A potential levy increase may present a trade-off with the desire to support a recovering economy. Our advice will provide early indications of the impact of no levy change for three years and discuss appetite for further scenario testing and/or policy review. If Ministers wish to review current settings, we could consider small to large change options to ensure the Scheme remains sustainable.

Health and Disability System Review

The Minister of Health released the Health and Disability System Review on 16 June 2020.

ACC is outside the scope of the review, but there are several opportunities where ACC can align more closely with Health and Disability services, particularly in areas like joint commissioning of services, case management and injury prevention.

The Treasury is interested, as a sector monitor, in how ACC can leverage the expertise it has to improve the health of New Zealanders and support the wider sector in developing a coordinated response. We propose to work alongside ACC and MBIE to identify opportunities and provide advice to you and your Ministerial colleagues.

ACC's Transformation Programme – Shaping our Future

ACC has progressed its significant transformation programme called 'Shaping our Future' over several years. The programme's overall objective is to improve trust and confidence in ACC and it has been implemented by ACC through the Integrated Change Investment Portfolio (ICIP). In response to what customers and stakeholders have told ACC, it is redesigning its services to put clients at the centre of its operations, and is committed to creating a more transparent, modern and efficient organisation.

ICIP includes significant customer-facing projects, including the Next Generation Case Management, and the Health System Strategy, which are aimed at client-centric services and contracting for outcomes, respectively. As part of the Treasury's monitoring function, we meet with the Programme Team on a regular basis to ensure programme progress and appropriate visibility to Ministers.

3 Upcoming key decisions and issues

We would like to engage with you on a range of key decisions and critical issues before the end of 2020. These relate to legislative requirements, your manifesto priorities, and other priority issues. We will provide you with a list of these issues and proposed timeframes for engaging with you ahead of our first meeting.

Annex One: ACC's Board

Member	Start date	End date	Region	Skills
Dame Paula Rebstock (Chair)	11 Apr 2011	[34]	Auckland	Corporate governance, economic regulation, commerce, health and insurance, labour market policy
James Miller (Deputy Chair)	1 Mar 2013		Auckland	Financial markets, investment, commercial governance
Dr Tracey Batten	1 Feb 2019		Auckland	Medical, CEO, health
John Brabazon	1 Feb 2019		Auckland	Investment, capital markets, corporate governance
David May	1 Jan 2018		Wellington	Actuarial, insurance, senior governance, investment, ex CEO ACC
Anita Mazzoleni	19 Jul 2014		Auckland	Commercial and administrative law, corporate governance, Crown governance, Māori networks
Kristy McDonald	3 Sep 2012		Wellington	Criminal, administrative, constitutional and public law, industry regulation, ethics
Vacancy [34]				

* Board members with terms extended under the run-on provisions of the Crown Entities Act.

Annex Two: Timeframe for ACC's accountability documents

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