
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**

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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 cyclicity 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) programme¹.

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

¹ 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	CORE BUSINESS	RATING (EFFECTIVENESS)	RATING (EFFICIENCY)
Reducing privacy breaches		Injury prevention		
Improving trust and confidence		Levy setting and collection		
Maintaining a focus on financial sustainability and levy stability		Investment management		
Delivering better public services		Claims management		
			RATING	
		Regulatory Impact		




Rating System






 Strong	 Well placed	 Needing development	 Weak	 Unable to rate/not rated
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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
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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>.