

PERFORMANCE IMPROVEMENT FRAMEWORK

Follow-up Review of the Accident Compensation Corporation (ACC)

May 2017

STATE SERVICES COMMISSION
Te Komihana O Ngā Tari Kāwanatanga



New Zealand Government

Lead Reviewer's Acknowledgement

I would like to thank the Minister, members of ACC's Board, management and staff and ACC's partners who all engaged so constructively and openly with this PIF Follow-up Review. The data supplied was of great quality and the views of the people interviewed were thoughtful and constructive. I would also like to thank officials from the State Services Commission, the Treasury and the Ministry of Business, Innovation and Employment (MBIE) who supported me and who were engaged and insightful throughout this review.

Dr Murray Horn

Lead Reviewer

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Contents

Executive Summary 2

Agency Response 3

Context and Scope 6

The Customer Experience 9

Transformation: Shaping Our Future 13

Injury Prevention 14

Balance 17

Conclusion 20

Executive Summary

This PIF Follow-up Review aims to answer the question: is ACC on track to meet the Performance Challenge and fulfil the Four-year Excellence Horizon described in the July 2014 PIF Review, given anticipated course and speed? It also aims to identify where the focus needs to be to help ensure ACC will be successful in this regard.

ACC is likely to meet aspects of the Challenge, and deliver elements of the desired four-year state. Significant progress has been made in strengthening organisational capacity and capability, building bench-strength and in aligning roles, responsibilities, values and behaviours to better position ACC to deliver the desired future state. Areas of real weakness in 2014, like information security and injury prevention, have been turned around. Public trust and confidence has significantly improved, as has levy-payer satisfaction. Moreover, the transformation program is largely on track in terms of delivering a better experience for levy-payers.

However, it is unlikely that all elements of the desired four year state will be delivered in that timeframe at current course and speed, and for good reasons. Changes to the original transformation plan were essential to reduce the risks that emerged around that plan, albeit at the cost of significant slippage in delivering many of the anticipated benefits of business transformation (especially in improving the claimant experience). Unexpected increases in claims volumes and costs also required attention. Management now have a much better sense of what is required to deliver the original ambition; have more than one way to get there; and have demonstrated an ability to respond to changing circumstances in a way that balances risk and reward in their choice of route.

There is no doubt that ACC will need to pick up the pace of transformation in order to deliver to the new timetable. More capability is required in some key areas and the transformation program still has significant issues to address. This may require further course corrections in order to deliver the desired improvements in claimant experience. Making these corrections, while picking up the pace, will demand more agility from ACC.

Continuing to deliver good 'business as usual' performance has also proved more challenging than anticipated, as higher than expected growth in claims volumes and costs have added considerable financial strain on the Scheme. Reducing this cost growth while delivering the desired improvements in claimant experience on time is the new challenge.

The transformation initiatives now underway provide a good platform on which to bring financial and customer goals into better alignment. However, these initiatives need further development in order to be confident that the required degree of alignment can be achieved in a timely way. While the developments required are reasonably easy to identify, they will require an additional level of effort and attention at a time when management is already heavily committed. Further reprioritisation may be required.

ACC is now better placed to manage these various risks and as long as it does so should be able to address the performance challenge described in 2014, as well as deliver the desired organisation and performance described at that time. The road to success will be different to that originally envisaged, and the journey will take longer, but we can have more confidence at this point that the desired state will be achieved.

Agency Response

We would like to thank Lead Reviewer, Dr Murray Horn, for undertaking ACC's Performance Improvement Framework (PIF) Follow-up Review (the Review).

The Board and Management of ACC have found the Review to be an accurate and insightful view of the progress ACC has made against its four-year excellence horizon.

The initial PIF Review was completed in December 2014 (2014 PIF), coinciding with the beginning of our organisational transformation programme to improve our customers' outcomes and experiences.

The 2014 PIF confirmed our approach of needing to build a more customer-oriented organisation that was more efficient and effective. It noted the increased focus on our customers should not come at the expense of good stewardship and financial sustainability of the Scheme.

To do this, and to deliver better customer service, we are focused on improving and integrating our systems, processes, technology, information and partnerships. We are three years into the transformation and, while we have adjusted the scope and timing of individual components, we remain committed to the original goals.

Customer Experience

The Review has recognised the significant improvements we have made in the last three years. This includes privacy, and public trust and confidence. Our key customer experience performance metrics are also moving in the right direction despite the challenges presented by higher than expected claim numbers.

The Review has highlighted that while it's important to improve our customers' experiences, the next significant development in performance will be delivered by managing claims more effectively. We will do this by looking closely at how we deliver case management.

We intend to more clearly differentiate cases that are easier to manage (92% of ACC's cases) from ones that require active intervention and judgement. This will allow us to better direct our resources and efforts to where we can make the greatest positive impact for clients.

Building stronger provider relationships will make the material difference in the quality of services and experience provided. Our provider strategy will push this further with purchasing of outcomes rather than individual services. Proofs of concept are already underway and we expect to roll out these kinds of contracts in 2018.

Shaping our Future

The 2014 PIF noted the major risk of change management capacity to deliver what was an ambitious programme. In response to this, we appointed PwC as our delivery partner to help us manage it. Further to this, and recognising the Corporation was undertaking considerable change outside of the transformation programme, we recently appointed a Chief Change Integration Officer to lead the change through ACC.

We have recognised the risk in delivering the change in such a short timeframe. In response to this, and as noted in the Review, we have extended the timeframe to reduce risk and ensure there is sufficient focus on balancing ACC's operational performance with delivery of the programme.

We acknowledge and agree with the Reviewer's feedback on the complexity of client payments and the resulting delay in benefits from this work. To assist with this, we have separated delivery of the system change in the Transformation Programme from process and case management change.

The Review noted that in order to maintain the pace of change, ACC will need to be agile and apply the 'fast fail, fast learn and fast fix' approach to issues to ensure the speed and scope of change is not compromised.

Injury Prevention

We are pleased the Review has recognised the commitment we have made to significantly strengthening our injury prevention programme. Our transition to a 'structured portfolio' approach (where interventions are more systematic) coupled with a strong governance framework and a steady increase in total investment, is beginning to deliver improvements in injury incidence and severity. We believe this has established a solid foundation.

We agree that while existing programmes are expected to impact frequency and severity in areas we invest, they may not have a material impact on the Scheme at an aggregate level. The future challenge is to have a more targeted approach that provides a greater level of return and potentially reduces the growth in overall Scheme costs. This will require effective use of data, new ways of working with our partners and a commitment to making larger investments (and greater risk).

The recent Supporting Patient Safety publication and the significant five-year investment to reduce treatment injury costs are examples of how we can make a material difference to the Scheme.

Balance

The 2014 Review challenged us to improve customer experience while delivering financial sustainability and levy stability.

While we have made improvements across key customer measures, we recognise some of the financial risks noted in the 2014 Review have been realised through an actuarial strain.

In response, and following the recommendations of the 2016 Financial Condition Report, we now have greater focus on financial performance. Improvements to reporting and education of claims management and provider staff of the financial impacts of their decisions are underway. Key to this is ensuring our finance, actuarial and operations teams work closer together to better monitor financial risks.

In addition, we expect work underway across our transformation initiatives, focus on improving case management and the provider strategy will create an environment that better balances customer experience with financial sustainability.

Concluding comments

We agree with and appreciate the findings of this Review. It supports our vision for ACC in the future and our transformation programme.

We would like to thank those who contributed to this review. We are committed to delivering on the refreshed four-year excellence horizon and the findings of the review.



Dame Paula Rebstock DNZM
Board Chair



Scott Pickering
Chief Executive

Context and Scope

About ACC

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

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

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

Funding for the Scheme is managed through five Accounts:

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

The scope and scale of ACC is illustrated by:

- 1.93 million new claims accepted and \$3.5 billion total claims paid in the 2015/16 year
- income from levies (\$2.85 billion), investments (\$3.27 billion) and Parliamentary appropriation (\$1.08 billion) in the 2015/16 year
- \$34.67 billion in investments at June 2016 (to meet the future costs of current claims)
- 3,300 full time equivalent staff (FTEs) as at 30 June 2016; 74% frontline (direct and indirect) staff
- 31 locations nationwide, including a network of 25 branch offices, service centres, contact centres, specialised units and Corporate Office.

The Performance Challenge

The 2014 PIF Review described the challenge for ACC to deliver a better experience for its customers while simultaneously delivering financial sustainability with levy stability. It described that better customer experience can only happen through ACC improving its service quality and effectiveness, as more generous administration of the scheme can lead to ACC chasing customer goals in one period and financial goals in the next (the pendulum effect).

A timely high quality levy-payer, provider and claimant experience that is more transparent, consistent and predictable over time will involve more discretion to the frontline backed up by a widely understood and accepted approach to using that discretion. Continuous improvement will be part of the ACC way of doing business, supported by benchmarking. ACC will be easier for everyone to do business with, with electronic interface being the norm. The Shaping Our Future transformation programme will provide ACC with an operating model to deliver the anticipated efficiency gains, enabled by the sort of customer-centricity needed to underpin the improved Net Trust Scores sought. At the same time ACC will also address recent deterioration in scheme performance by strengthening service effectiveness (including in rehabilitation).

There will be a transparent, principles-based process for levy setting. Levy rate decisions will be consistent with both the agreed principles and the long-term financial objectives of the scheme. Substantial improvements in injury trends will be based on a well-developed injury prevention strategy 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.

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

ACC's behaviours will include greater openness, recognising the individual needs of customers and working more effectively with partners. This will include a sense of consistent direction and purposeful follow-through of intentions, and a culture of shared trust. ACC will see itself as an active participant in a wider system.

ACC understands these challenges well and its Agency Response to the 2014 PIF Review described the Shaping our Future transformation programme underway to deliver on the complementary goals of improved customer experience and good stewardship of the scheme. The Agency Response set out the key elements of the programme including a new vision and values for staff, the redesign of some services, the creation of Chief Customer Officer and Chief Transformation Officer roles, increasing the success of injury prevention activities, improving collaboration with providers and other stakeholders, and building the capability of ACC's people.

Areas of focus for this review

The Board and Chief Executive have commissioned this PIF Follow-up Review to give a high level external view of the agency's progress since the 2014 PIF Review. I have been asked to consider whether the agency's direction of travel is right and it is on track to deliver its Four-year Excellence Horizon and meet the challenges beyond. The Board and Chief Executive have asked me to focus specifically on the following areas:

- Customer Experience – the consistency, predictability and quality of ACC's customer experience has improved in tangible, measurable ways.
- Shaping our Future – the organisation has successfully implemented the first elements of the new operating model and the transformation programme is delivering early, measurable improvements in Net Trust Score.
- Injury Prevention – ACC's injury prevention programme has successfully transitioned to a structured portfolio of systematic interventions and is starting to deliver quantifiable improvements in injury incidence and severity.
- Balance – ACC is striking the right balance in delivering on the customer promise while maintaining (and enhancing) the Scheme's overall financial sustainability.

This report sets out my findings in these areas and re-sets the Performance Challenge within ACC's current context and operating environment.

The Customer Experience

Two of the main goals of ACC noted in the 2014 PIF review were to significantly improve:

- a. the level of public trust and confidence in ACC (that had fallen to a very low ebb in 2012/13 following a number of widely publicised privacy breaches); and
- b. the satisfaction of business (levy-payers) and client (claimant) customers.

The aim was to improve these outcomes by improving information security and the customers' experience of ACC (as opposed to simply operating the Scheme in a more generous fashion, which would undermine its financial position). ACC initiated a transformation program aimed at improving the consistency, predictability and quality of ACC's customer experience in tangible, measurable ways.

ACC has had the most success in significantly improving the level of **public trust and confidence** in the Corporation. In 2012/13 only 47% of the surveyed public said they had trust and confidence in ACC. This has steadily improved and by November 2016 this number had increased to 61%. This improvement has been supported a material improvement in the security of customers' private information held by ACC. The number of privacy breaches per quarter has fallen from 36 in 2012/13 to 16 by March 2015 when the measure changed to serious breaches. Only 1 category 3-5 breach was recorded in November 2016 and none of the most serious breaches are expected going forward.

Satisfaction of levy-payers with their last direct contact with ACC has also increased significantly over the last two years: from 59% in 2013/14 to 69% in 2015/16. While some of this increase is likely to be due to the reduction in levy rates, ACC has been engaging its business customers in making their invoice simpler, more accurate and easier to understand (which has had a good response) and started rolling this out at the end of this period (which has reduced the number of calls from business customers about their invoices). Legislative changes aimed at improving the predictability and stability of levy rates should have also helped.

Looking forward, there are a number of changes that should support further improvements in business customers' experience within the original four year horizon period. While it used to take 12 months to issue invoices, this will fall to two months this year and one month next year. This should give business customers greater certainty about when they will be billed. The Shaping Our Future (SOF) core system changes should create a real time on-line digital platform for business customers that will improve billing accuracy and timeliness, make it easier to get things right first time and to make changes, and provide on-line self-service options for business. These changes should be effective from October 2017. ACC is developing different propositions better tailored to the different needs of seven different business segments. ACC will also gradually be able to provide these different segments with comparative injury data.

Entitlement **claimants' trust and confidence** in ACC has increased since 2013/14 and this will have been influenced by some of the same factors that have driven higher public trust and confidence. Our interviews with representatives of various claimant groups also highlighted a significant and positive change in ACC's attitude and approach to client concerns that would have also helped. Similarly, while the recent change in approach to

ACC's relationship with providers is still in its early stages of development, it has started to improve their trust and confidence in ACC. This is important given the client experience of ACC is largely mediated through ACC's clinical partners.

However, far less progress than expected has been made in improving the **claimant experience**. The proportion of claimants' either satisfied or very satisfied with the way ACC managed their claim has remained more or less flat at 75% since 2013/14.

This is not surprising. Much less has been done that directly improves the claimant experience. The transformation of claimant experience originally expected from SOF has been significantly delayed as part of the necessary de-risking of that program (see next section). While ACC has made a number of tactical improvements to the claimant experience (eg, extending contact centre hours; making it easier to prove earnings for compensation, which has made access to compensation quicker and easier) attention has been focussed elsewhere.

The 2014 PIF Review noted that turning around a declining rehabilitation performance and addressing pressure from increasing numbers of claims and duration might make it difficult to deliver the expected progress on improving customer experience. These pressures have ended up being more demanding than originally anticipated.

In order to manage these pressures, the major focus has been to better segment claimants and tailor the way ACC manages each segment to better match the cost and benefits associated with serving each segment (a process that still has further to run). While this has had some positive impact on the claimant experience in some segments, the main effect has been to reduce the cost to serve segments that required a reactive and/or 'low-touch' approach and focus proactive case management on those segments where the returns are higher. Rather than significantly improving claimant experience, the focus has had to be on maintaining service levels (and halting the decline in rehabilitation rates) in the face of unexpected increase in demand, without a large increase in staff.

Looking forward, there are three streams of work underway that, in combination, should underpin improvements in the consistency, predictability and quality of ACC's customer experience and reduce the risks associated with delivering this outcome.

First, SOF aims to improve the claimant experience around both payments (largely weekly compensation) and lodgement (determination of cover and extent of services provided to help rehabilitation) as well as provide on-line, self-service options for claimants who do not need to be case managed. Ideally, a client would walk out of the doctor's office knowing their claim was accepted as well as the extent of their entitlement for treatment and other support. The plan was for changes in payments to start rolling out in November 2017 and be largely completed over the course of about 12 months and for lodgements from December 2017 on a pilot basis rolled out to all providers starting a year later. These timelines are under pressure and are currently under review. The likelihood is that delivery timelines will be pushed out and/or costs will be higher than originally planned.

Second, ACC is planning to further change the way claims are managed to better match the service provided to the requirements of different claimant segments (internally called Next Generation Case Management (NGCM)).

The development of the on-line claimant access as part of the SOF program will allow clients who are able to self-manage the ability to do so. The digital development required as part of SOF is not dependent on other elements of the SOF program being rolled out (although better provider data would help better define each customer segment and ensure each gets the right service in a timely way).

While case management is proactive and case-centric, there are segments of claimants that are better managed reactively and on a task-centric basis (ie, they call ACC when they need something done). This is reasonably low risk because it builds on recent successful experience managing a smaller customer segment in this way.

Self-managed and task-managed cases are 'low touch' options and employing these alternative low-touch approaches would free-up case managers to be more effective in managing those clients that require more attention. They will also ensure greater consistency and predictability in the customer experience for these low touch clients. Self-management has to be consistent because it is fully automated. Task-based teams responding to typically common client enquiries are likely to produce a more consistent country-wide customer experience for that group of clients.

Case managers will have more time to focus on those claimants where a proactive and personalised response is required because judgement and interaction is needed to identify how to best deliver a speedy return to work or independence. Further work is required to focus the area of discretion where it will add most value (eg, making it easier for case managers to apply business rules), expand tools to support case managers in the exercise of their discretion (see section on 'Balance' below), and on aligning the development, support and assessment of staff to the outcomes required from both task- and case-managers. While client segmentation will help improve consistency of client experience, all these factors are necessary to deliver a consistent, predictable and high quality client experience.

Third, ACC is developing a more sophisticated relationship with providers so that they can do more to manage high touch clients. A single point of accountability for provider services was established in August 2015. A new provider strategy was approved in July 2016. That strategy also proposed a differentiated approach for managing providers servicing low- and high-touch clients:

- a. Where clients only require a relatively light touch to complete their rehabilitation, ACC will remain a basic fee-for-service funder, albeit with a simpler and more consistent approach to contract monitoring and reporting (e.g., moving from ex-ante approvals to ex-post monitoring of results for physiotherapy that focusses on outliers).
- b. For high touch clients, ACC will gradually move to purchasing outcomes for high value injury types, within an alliance-type of contracting framework.

ACC is also improving its engagement with Māori, including by better understanding how Māori perspectives can be included in service design. More work will be required to embed this, especially to help providers as they engage with Māori. . The high touch initiatives are distinctive and not dependent on progress with the other elements of NGCM or SOF (albeit progress on both of these would be helpful, especially the lodgement element of SOF).

This development of the provider relationship for high touch clients has taken longer to get off the ground than originally envisaged. Part of this time has been devoted to building the

degree of mutual trust between ACC and providers necessary for them to invest in developing their own capacity to act as partners, rather than simply suppliers of services for a fee. Part of the time has been spent building the ACC's own capability to initiate this process.

Contracting for outcomes has the potential to make a substantial contribution to both financial performance and customer experience. However, it is still in the pilot 'proof of concept' phase and may well prove more useful in urban than rural areas where there are fewer providers. More capability and capacity is required within ACC – and amongst potential provider partners - to support the substantial increase in both the scale and scope of this style of contracting necessary to make a substantial impact. The current timetable sees the year ended June 2017 setting the foundation; the following year testing and learning to prove and develop the desired end state and the year ended June 2019 and beyond to realise the benefits of this new approach. ACC should look at ways of accelerating this process, although it is critical that acceleration builds, rather than weakens, momentum because to encourage providers to invest in this approach requires them to be confident that ACC will 'stay the course'.

There are a number of factors that are critical to the ability of ACC to pick up the implementation pace and scale of these three streams of work and so build and maintain the necessary momentum in improving the consistency, predictability and quality of ACC's customer experience:

- a. The ability to simplify the legislative and regulatory framework in a way that helps implementation of these three streams.
- b. The ability to make mid-course corrections that offset under-performance in any one of the three streams with over-performance in one or two of the others, so at least on-going incremental improvements to customer service can be made.
- c. The ability to make these changes without sacrificing the overall pace or scale of change. This will be more challenging for ACC. This means not having to go back to the drawing board when significant risks arise but rather use a "fast fail, fast learn, fast fix" approach that involves "tacking" to a changing future state, rather than "planning" to get to a fixed future state.

The sheer complexity of the legislative and regulatory environment – and the practices that have grown up around that environment – is complicating implementation. Now ACC recognises the scope and scale of the problems that this complexity is creating, it needs to develop a better relationship with MBIE in order to identify the best way to reduce this complexity.

Piloting the new contracting approach and piloting of NGCM in the 'launch-pad' phase creates the opportunity to refine these two approaches in the light of experience and is consistent with more nimble change management. However, ACC needs to be prepared to move quickly to scale up innovations that show promise and drop those that don't, while maintaining confidence that it is staying the course. Internally, ACC cannot ask its managers to be more nimble while continuing to tie them up in cumbersome internal compliance procedure.

Transformation: Shaping Our Future

One of the major risks identified in the 2014 PIF Review was the ability of ACC to acquire the change management capacity to successfully deliver the business transformation that helps underpin the outcomes required to meet the four-year excellence horizon: ie, a full system replacement delivered in a three year timeframe.

This plan was significantly de-risked in November 2015 by reducing the scope of systems replacement (preferring 'integration' of a new levy setting and collection platform and then 'optimisation' of the existing case management platform) and spreading implementation over a longer period. While sensible, and no less ambitious in terms of business transformation, this pushed out the benefit realisation profile: instead of benefits starting in Financial Year 2015 and reaching high rates in Financial Year 2017, these dates were pushed out by about 3 years.

The November 2016 update of the new 2015 base noted further delays in starting a number of projects (delays at least partially reflected in a 40% reduction in estimated Financial Year 2016 costs). On-going refinement of the degree of change required to successfully implement the new levy setting and collection platform has also resulted in an increase in the estimated cost from \$45 million to about \$60 million, although further risk to both the cost and timeframe around this project now appear manageable.

Despite these delays, ACC has made a number of process and other changes that have improved aspects of the client and levy-payer experience since July 2014 (eg, allowing clients more options to demonstrate pre-injury earnings has speeded up access to earning related compensation by about 2.5 days, without creating any apparent problems). Moreover, many of the original improvements in levy-payer experience originally expected to be delivered by transformation as part of the four-year excellence horizon still seem likely within that sort of timeframe.

However, as noted in the 'Customer Experience' section above, the new timetable means that the very substantial improvements in client and provider experience originally expected from transformation will now not be realised until much later. Moreover, given the current stage of development of these two elements of transformation, significant risks still remain around both their ultimate cost and delivery timeframe. Of particular concern is the sheer complexity around payments calculations. It is not yet clear how this will be addressed or the flow on impacts on cost and timeliness. Furthermore, while the management of providers caring for more complex clients is now finally shifting towards the sort of outcomes-based and alliance-like contracting envisaged in 2014, this has taken longer to get off the ground than expected at that time. While this has the potential to make a substantial contribution to both financial performance and customer experience, it is still early days.

Injury Prevention

Of ACC's three functions - prevention, rehabilitation and compensation – the 2014 Review found that injury prevention was least developed and was the only activity rated as 'weak' at that time. An impactful injury prevention programme is critical to achieving the ACC's vision to improve our quality of life "... by minimising the incidence and impact of injury."

The 2014 PIF report noted that, while ACC had some success over the years (especially in Roads and Rugby), injury prevention performance was "sporadic" rather than "sustained and systematic". The weak rating reflected the relatively low level of investment; an on-again, off-again approach; an approach to partnering that was perceived as being "on ACC's own terms"; an overly narrow range of interventions that constrained returns; and the lack of well-defined strategy to reduce injury incidence and severity. ACC recognised these weaknesses and was committed to correcting them.

ACC has since backed this commitment with action in all of these areas. It has increased its investment in injury prevention from \$34 million in 2013/14 to \$50 million in 2015/16 and plans to raise that to \$80 million in 2018/19. At the same time, the expected return on this investment has increased from \$1 for every dollar spent in 2014/15 to \$1.87 today and is targeted to increase to \$2 per dollar invested by 2018/19. This is underpinned by better use of data to identify opportunities; more effective partnering across a wider range of partners; employing a wider range of interventions (education, subsidy, regulation, levy-setting, enforcement); to address a broader range of the causes of serious injury (eg, family and sexual violence); all guided by a much better articulated strategy for targeting and reducing the cost of injury that should help ensure a more consistent approach over time.

This has been a remarkable improvement in a relatively short timeframe. Looking at the *Areas of focus* described in the 'Context and Scope' section above: ACC has transitioned to a structured portfolio where interventions are more systematic and are starting to deliver quantifiable improvements in injury incidence and severity. The area is no longer 'weak'.

The challenge now is for injury prevention to have a much bigger impact on aggregate injury incidence and severity in order to materially reduce the expected growth in overall scheme costs.

While the current approach has a significant impact in specific areas, it is not yet significant enough to be material at the aggregate level: ie, total claims or costs per claim. Instead of reducing new entitlement claims from 24 to 22 per 1,000 people by 2017/18, as anticipated in 2014, these claims have actually increased to 26 per 1,000 (albeit ACC argues that better than expected economic conditions had some part to play in driving this increase). While injury prevention initiatives seem as if they are starting to have a noticeable impact on the severity of injury, it is unlikely to be material for some time yet. The Financial Condition Report 2016 notes on page 5 that "... in order for there to be a material impact on levies and appropriations, both the level of investment and the return need to grow."

It is unlikely that simply scaling up the current approach will be enough, even if ACC were prepared to continue to spend ever larger sums on injury prevention. The best prospects from existing partners are likely to be already underway. Without further innovation in ACC's injury prevention business and operating models, diminishing returns will start to set in.

Identifying these innovations is the next performance challenge in injury prevention. It may well be that making a material impact on a \$3.5 billion increase in the lifetime cost of new claims each year requires a far better targeted and co-ordinated effort across all of government (although this is the responsibility of whichever agency has leadership across government). In the meantime, however, ACC has to take the lead in working with its partners in areas where the benefits to the Scheme are highest.

There is scope for innovation that can further increase returns, even with what is currently known about 'what works' to deliver better outcomes. Data could be used even more effectively to better target the right activities to the right group of people at the right time. There is also scope to engage an even broader range of partners in helping to deliver a common outcome (eg, in developing the fledgling relationship with District Health Boards and others in the health and social sector to tackle treatment injury). There is also scope to systematically broaden the range of interventions used by ACC and its partners so that they 'multiply' the impact of ACC's monetary investment (as publishing District Health Boards' treatment injury statistics will do and changing the way treatment injury is funded could potentially do). It is instructive that the District Health Boards are focussing more attention on treatment injury in large part because ACC has shifted perceptions of the size of the problem (eg, the 2014 Financial Condition Report noted that with the expected growth in treatment injury claims, "...the lifetime costs of new claims will surpass the Motor Vehicle Account by 2020 and the Work Account by 2023").

An important step in assessing the size of this challenge, and in aligning the aspirations and incentives of ACC and its partners, is to develop targets for the expected and required impact of ACC's injury prevention activity on injury incidence, severity and overall scheme costs. The 2015 Financial Condition Report recommended the development of a medium- to long-term target for the intended overall impact on injury reduction as a result of ACC's injury prevention activities: ie, an outcome target.

To deliver an outcome target, ACC needs to partner with all those organisations that are necessary and sufficient to deliver the outcomes that contribute to the overall target. To be most effective, ACC and its partners then need to agree contributory outcome targets and ensure that the incentives facing each partner are aligned to delivering those targets. This needs to be supported by a different approach to funding: ie, a 'tight' (on specifying result); 'loose' (on specifying how that result should be achieved); 'tight' (on accountability for delivery) approach to funding.

While ACC has made real progress in improving its ability to partner with others, neither ACC nor its current partners are yet at the point where it will be easy to meet these requirements. It is no surprise that this 2015 Financial Condition Report recommendation has not yet been closed and that ACC is still working with its partners in each portfolio of activity to develop these targets. The partners we spoke to were keen to have the desired outcomes better specified and happy to be held to account for delivering activities they control but wary of being held accountable for delivering outcomes, even as part of a broader partnership. In part this reflects a concern over what is controllable by them, in part a concern over what their partners will actually do, and in part a concern about their own ability to deliver in untested areas. In some cases, it also reflects the fact that a period of discovery is required before they can be confident about what will really work best.

If ACC accepts that simply investing more in the current approach is not enough to really shift the dial on injury prevention, then it will need to work through these sort of issues. Given current capacity of ACC and its likely partners, this additional effort will need to be focussed on a few areas with the greatest prospects of significantly higher returns. Concentrating more of its portfolio on larger investments means taking more risk. Ideally, this should be an explicit decision that is reflected in a requirement for a much higher expected return than the current 2:1 ratio from the next tranche of investments in injury prevention.

Balance

The main conclusion of the 2014 PIF Report was that ACC could only improve the customer experience while **simultaneously** delivering financial sustainability and levy stability by improving service quality and effectiveness. Improving customer experience through more generous administration of the Scheme created unnecessary tension between these twin goals leading to a ‘pendulum effect’ where ACC chased financial goals in one period and customer goals in the next. This “... adds to scheme volatility in ways that undermines confidence in the scheme ... (and) ... undermines partner and staff confidence that ACC will persist with any particular course of action.”

At that time, public trust and confidence in ACC was poor and customer satisfaction levels lower than desirable. On the other hand, the financial position was very strong (albeit that the 2014 PIF Report identified a number of risks to this position). Achieving a better balance required ACC to substantially improve public and customer satisfaction while reversing a decline in rehabilitation rates and managing the risk of increasing claims and claim duration. The Report also identified an opportunity for legislative change that would help underpin greater levy certainty and predictability.

Previous sections have described the progress made in improving public trust and confidence as well as improving the levels of customer satisfaction. Legislative changes foreshadowed in the 2014 PIF Report have been introduced to help improve levy stability and predictability. Investment performance has remained above benchmark, which helps but out-performance year-in and year-out should not be relied upon. The levied accounts are all above their target funding position of 105%, with the aim now to maintain the funding position close to this target.

While the Scheme remains in a satisfactory financial position, the financial risks identified in 2014 have materialised with some new strains emerging. The impact of higher than expected claim volumes and costs have significantly pushed up the Outstanding Claims Liability in the last two years. In 2015/16, for example, the Outstanding Claims Liability increased by \$666 million due to higher than expected number of claims and costs per claim (excluding the impact of legislative and policy changes).

The Financial Condition Report 2016 (page 4) noted that: “There will be significant risks to the Outstanding Claims Liability and Scheme solvency if growth in claims costs continues at levels seen in the past two years. Therefore, understanding and monitoring the financial impacts of providing services is important. A greater level of focus needs to be brought to this work...”.

Recent indicators are not encouraging. They suggest that cost growth is continuing at these levels and so significant risks remain. The big drivers of this trend increase in claims costs are: the cost of social rehabilitation for serious injury (especially carers travel costs, increased attendant care hours, more claims accessing higher costs services and the higher than expected seriousness and cost of new injuries); weekly compensation (including large backdated payments [including for potential earnings from sensitive claims]; and higher payments for counselling for sensitive claims [more services and for longer than expected]).

While a better balance between financial and customer goals is being achieved, this will be cold comfort if this continued growth in claim costs forces a less generous administration of the Scheme that, in turn, undermines public and consumer satisfaction. Reducing this cost growth in a way that is consistent with planned improvements in claimant satisfaction has to be the priority.

Rather than 'balancing' financial and customer goals, there is scope for doing even more to bring them into closer alignment: ie, improving the impact of investments in prevention, treatment and rehabilitation in reducing the outstanding claims liability. Prevention has been discussed above. More timely and/or better tailored and targeted treatment and rehabilitation decisions would be focussed on delivering a faster return to work or independence and/or a reduction in the cost of on-going care.

A better understanding of the drivers of Scheme experience, as recommended in the 2016 Financial Condition Report, would be helpful in identifying priority areas for action.

The three work streams (SOF, NGCM, Provider) described in the Customer Experience section above can all be further developed to better align financial and customer goals. All three help create the opportunity to give more attention to better tailoring treatment and rehabilitation for the most complex and costly clients who require a 'high-touch' approach.

Strengthening ACC's own case management at the same time as developing and incentivising providers' ability to manage some of these clients creates opportunities for each 'delivery channel' to learn what is likely to work best for different high-touch client groups. Identifying what works best for different groups then needs to be translated into management systems and tools that help reduce variation around those better results.

It would be helpful to convert the current estimate of the likely time a new entitlement claim will take to return to work or independence into a cost estimate (for the compensation and services typically provided to clients with the same characteristics and injury types). This would provide a useful benchmark against which to assess case managers and outcome-contracted providers, as well as to assess the impact of innovations from both groups.

The next step would be to identify those treatment and rehabilitation services that were most likely to produce a better financial and non-financial outcome for a given client group with a given injury type. This understanding then has to be translated into the decisions that providers and case managers make about the sort of treatment and rehabilitation services provided to each group of claimants who have suffered similar injuries and who are in similar situations.

This understanding should influence the incentive framework within which both providers and case managers operate (eg, shifting from the current focus on duration to one that was better aligned to improving ACC's return on investment).

A better benchmark along with a better understanding of what is likely to work best for different client groups would also help in developing the decision support tools case managers and providers are likely to need in this more specialised role. Developing a tool that helps case managers assess the likely return to different levels and types of investment can help narrow the need for discretion on those investment decisions where discretion is most important. The FID tool is a useful start, albeit limited to comparing the present value cost of alternative investments (especially where a capital item can economise on future

expenditures). However, better decision support tools will help only if they are used effectively (so ACC needs to better understand and address the reasons for under-utilisation of the current FID tool).

Developing stronger professional leadership would also be a useful supplement to management of case managers. That would involve on-going development of what constitutes best professional practice; identifying people who could help case managers develop their application of that practice; and working with outliers to reduce variation in the application of discretion and so improving the consistency and predictability of the customer experience across sites and over time.

Conclusion

The focus for this review in the Context and Scope section above posed five questions.

Is ACC's direction of travel right and is it on track to deliver its Four-year Excellence Horizon and meet the challenges beyond? The Executive Summary of this report describes where ACC is on track and where progress has been slower than anticipated, as well as the risks ACC will need to manage to meet current challenges. ACC is headed in the right direction and is now more capable of simultaneously delivering both its transformation and business-as-usual goals, and with less risk than in 2014. However, success will require more agility and focus, and possibly even more time than currently envisaged.

Has the consistency, predictability and quality of ACC's customer experience improved in tangible, measurable ways? The experience of the public and levy-payers has improved as originally envisaged. However, much less progress has been made in improving the claimant experience, largely because of the more pressing need to de-risk the transformation program, address deteriorating rehabilitation performance and manage an unexpected increase in claims volume and cost. ACC is now well placed to pick up the pace in executing what is a much more robust portfolio of transformation initiatives aimed at significantly improving the claimant experience.

Has ACC successfully implemented the first elements of the new operating model and is the transformation programme delivering early, measurable improvements in Net Trust Score? The answer is 'yes', although the 'first elements' of the new operating model are more limited in scope than originally envisaged and, as a consequence, so are the improvements in claimant and provider Scores. Success requires ACC to hold the course and pick up the pace of transformation initiatives now largely well underway.

Has ACC's injury prevention programme successfully transitioned to a structured portfolio of systematic interventions and is starting to deliver quantifiable improvements in injury incidence and severity? Yes. The challenge now is to significantly increase the programmes impact so that it has a material effect on injury incidence and severity at the aggregate level. Scaling up the current approach is unlikely to be sufficient: innovation is required.

Is ACC striking the right balance in delivering the customer promise while maintaining (and enhancing) the Scheme's overall financial sustainability? While a better balance is being achieved, we cannot yet be confident that the financial risks identified in the Financial Condition Report 2016 are going to be addressed in a way that is consistent with delivering the desired size and speed of improvement in claimant satisfaction. Achieving this dual objective will require additional effort and attention and some reprioritisation may be required.