

Commercial: In Confidence

Office of the Minister for ACC

Chair, Cabinet Government Administration and Expenditure Review Committee

Accident Compensation Corporation December 2022 Integrated Change Investment Portfolio Progress Update

Proposal

1. This paper updates Cabinet on the Accident Compensation Corporation's (ACC) Shaping Our Future programme for the period of January 2022 to June 2022 and next steps.

Relationship to Government priorities

2. This paper has no direct relationship to the Government's priorities.

Executive Summary

3. This paper updates Cabinet on the remaining deliverables for ACC's Shaping Our Future programme. It discusses updated benefit forecasts based on the latest economic assumptions and the impact of this on the overall financial benefits of ICIP, as measured by Net Present Value (NPV).¹
4. The Shaping Our Future programme is a strategy to redesign ACC's systems to improve clients' outcomes, experience and trust and confidence, and is implemented through ACC's Integrated Change Investment Portfolio (ICIP).²
5. ICIP is fully funded by ACC. The expected cost for ICIP is \$619 million against a budget of \$669 million.³ As at 30 June 2022, \$583 million has been spent, with \$36 million (including a \$16 million contingency) available for the remainder of the programme.
6. ACC is in the final stages of delivering ICIP, with all projects due to be completed by the end of the 2022/23 financial year. I will provide a final report back to Cabinet upon completion of the delivery of ICIP.
7. ACC has realised \$80.8 million in benefits from ICIP to the end of the 2021/2022 FY, \$5.8 million behind its target of \$86.6 million. Six benefit areas have exceeded their Life to Date⁴ targets, including the Health Sector Strategy, claims costs savings, and vocational rehabilitation costs. This however, has been offset by lower performance in the resource efficiency and weekly compensation days paid benefit areas.
8. Performance in the resource efficiency benefit has had a significant impact on ICIP's overall benefit realisation. The lower the number of claims made to ACC, the less benefit it can derive from initiatives aimed at increasing the efficiency of claims handling. Resource efficiency has therefore been significantly impacted by COVID-19, which has led to low claims volumes in the 2021/2022 FY, 11.3% below expectations based on the Treasury's projections of population and economic growth.
9. Because of the losses in this area, and the expectation that lower claims volumes will continue to impact performance into the future, ACC now projects that it will meet its

¹ NPV is a calculation of the future monetary costs and benefits of a collection of initiatives over time (benefits minus costs), expressed in the present value of cash. A positive NPV indicates that, over time, the financial benefits that flow from ICIP initiatives will be greater than their overall costs.

² ICIP is the group of programmes and projects within ACC that make up its investment in the changes required to achieve its Shaping Our Future objectives. Projects that have been successfully delivered include MyACC, Heartbeat, and client payments.

³ A \$50 million reduction to the original budget of \$669 million was made in response to the challenges presented by COVID-19.

⁴ Life to Date is a measure of progress from the point where benefits begin to be realised following implementation.

original NPV target of \$300 million in 2033, two years later than previously expected. This is contingent on future projections of population and economic growth.

10. The implementation of the Shaping our Future programme through ICIP has led to significant changes for ACC, modernising its systems and providing the platform for the Corporation to be more responsive to the needs of New Zealanders. However, priorities within both ACC, and Aotearoa as a whole, have shifted significantly since the commencement of the programme in 2014.

11.9(2)(f)(iv)

Key ICIP achievements since my May Cabinet update

12. Since my last update to Cabinet in May 2022⁵ [GOV22-MIN-0013 refers], ACC has continued to deliver ICIP initiatives through the Health Sector Strategy and technology improvements.

Health Sector Strategy

13. The Health Sector Strategy aims to improve rehabilitation outcomes for clients by fundamentally changing the way ACC works with the health sector.⁶ This is being achieved through several initiatives.

14. *Integrated Care Pathways* (formerly Escalated Care Pathways) is a service for clients who have suffered a complex back, shoulder, or knee injury. This service brings together an inter-disciplinary team of providers who determine the best way to care for the client over the lifetime of an injury. The service aims to improve experiences and outcomes for clients.

15. Integrated Care Pathways continue to show positive improvements for clients in sustainable return to work rates and reductions in re-injury, secondary surgery and reduced long-term claim costs. While referral numbers remain behind target, they are increasing.

16. ACC has adjusted and refined Integrated Care Pathways during 2022 and continues to test the service with new body sites and geographical regions in preparation for expanding the service in 2023.

17. *The concussion service pilot* enables GPs to better manage mild traumatic brain injury, by providing tools and education and enabling clients to be referred into secondary care services without ACC approval. The pilot was implemented in 2021, with 40 clients accessing the Primary Care pathway and 1300 clients accessing the Secondary Care pathway in that time. ACC is looking to expand this service further so it can benefit more clients.

18. *Patient-reported outcome measures* collects patient-reported outcome measures for clients with concussions or lower and upper limb fractures. In 2022, ACC completed two trials. The learnings from these two trials, and a third trial currently underway in partnership with Physiotherapy New Zealand, will help inform ongoing work to better measure outcomes and improve services for clients.

19. *Kaupapa Māori health services* aim to deliver whānau-centred, tikanga-aligned care to injured people with complex needs. ACC continues to develop the service

⁵ covering July to December 2021

⁶ Refer to previous updates to Cabinet for further information on the Health Sector Strategy and the initiatives delivered to date.

in partnership with Māori. Development and implementation is underway in the Tainui rohe, and early-stage work has begun in both Te Tai Tokerau and Tāmaki Makaurau.

20. *Improving providers' interactions with ACC* to help clients access support faster.

- a. ACC has enabled audiologists to lodge claims for work-related gradual hearing loss, removing the requirement for a client to also see a GP. This simplifies the process for clients and reduces demand on an already stretched GP workforce.
- b. ACC removed the need for pre-approval for several surgical procedures and introduced the ability for providers to perform low complexity hand surgeries in surgeon suites rather than surgical facilities.

Technology Improvements

Provider Platform Phase One

21. Provider Platform (formerly provider payments) is a project to support future value-based healthcare purchasing in a way that moves away from a 'fee for service' model and towards a customer centred, outcome driven model, where ACC works with providers in partnership to deliver both value for customers and value for money through commissioning for outcomes.
22. Provider Platform will eventually replace ACC's current provider payment and contracting system, enabling significant changes in how it works and interacts with providers to improve client outcomes.
23. Phase One of Provider Platform includes:
 - a) ProviderHub, a modern self-service platform for providers, which went live in September 2022.
 - b) Provider Registry, which creates a single source of provider information and ensures providers are verified, authenticated and authorised.
 - c) An initial implementation of Contract Lifecycle Management, which centralises ACC's provider contract records to enable future self-service capability and automation.
24. All work following phase one will be completed outside of ICIP, under ACC's normal change investment.

Strengthening IT system reliability and performance

25. ACC's *Corporate Enterprise Resource Planning Project (Te Kahu)* moved its core Finance, Procurement and Human Resource systems to a cloud-based system to provide a single source of information and remove the risk of relying on old systems that were nearing the end of their life. Release 2 of the Te Kahu project went live in April 2022 and follow-up support was completed in May 2022.

Benefit performance

26. Life to Date benefit performance at the end of the 2021/22 financial year is \$80.8 million against a target of \$86.6 million, \$5.8 million behind target.

27. Six ICIP benefit areas exceeded their 2021/2022 financial year targets. These include: the Health Sector Strategy claims costs savings; reduced fraud; waste and abuse⁷; reduced operational costs; and reduced vocational rehabilitation costs. However, continued lower performance in resource efficiency and weekly compensation days paid has offset some of the gains in these six benefit areas.
28. In my last update, ACC's key financial target for ICIP was to achieve an NPV⁸ of \$300 million by 2031. NPV is forecasted based on the Treasury's projections of population and economic growth, which inform ACC's projections of claim volumes. Based on these projections, ACC forecasts that by 2031, it will achieve an NPV of \$163 million, with the full target of \$300 million likely to be met by 2033.⁹
29. ICIP's NPV is highly reliant on the benefit measures of resource efficiency and weekly compensation days paid (discussed in more detail below). These two measures can be easily influenced by factors outside of ACC's control, as was seen with the COVID-19 pandemic. Therefore, this projection may change depending on future projections of population and economic growth. I will provide an updated forecast for meeting the \$300 million target in my final update to Cabinet following the completion of delivery of ICIP.
30. The shift in NPV is predominantly due to claim volumes being 11.3% lower than projected in the 2021/22 financial year. Low claim volumes impact ACC's ability to meet targets in the key benefit measures of resource efficiency (as staffing numbers become too high as they are based on the expected number of claims) and weekly compensation days paid (as short-term claims decrease, and the proportion of long-term claims increases). This also has a flow-on impact on benefit achievement into the future. The impact of low claim volumes on ICIP's NPV is discussed further in paragraphs 39-48.
31. Despite the changes in expected NPV, the ICIP programme is still delivering a positive impact for ACC, both financially, and in the quality and type of service that ACC clients receive. Although ACC will not continue to track NPV once the target has been met, it expects the changes made under ICIP to deliver financial benefits beyond 2033. Additionally, many of the ICIP projects, such as Juno and client payments, were essential upgrades that were necessary to build modern and resilient technological architecture to future-proof the organisation.
32. ICIP also involved initiatives such as Next Generation Case Management and the Health Sector Strategy that focus on a person-centred approach and will ensure the service ACC provides to New Zealanders is concerned first with wellbeing, rather than meeting financial targets.
33. Please see below for further information on performance in each benefit area.

Levy optimisation

34. Through optimised levy collection, ACC can invest earlier and increase returns on investment, improving affordability of the Scheme (\$14 million Life to Date value).
35. Although overall levy optimisation is tracking ahead of target, work within this area to reduce levy debt due to invoices that can't be collected due to out-of-date business customer information has only resulted in benefits of \$0.3 million Life to Date. While this

⁷ **Fraud** – any unlawful act or omission made with an intent to gain advantage for yourself or another. **Waste** – any careless act or omission that results in an advantage contrary to policy, practice or procedure. **Abuse** - any negligent act or omission that results in an advantage for yourself or another through abuse of policy, practice or procedure.

⁸ NPV is a calculation of the future monetary costs and benefits of a collection of initiatives over time (benefits minus costs), expressed in the present value of cash. A positive NPV indicates that, over time, the financial benefits that flow from ICIP initiatives will be greater than their overall costs.

⁹ See Appendix 2 for further detail on the benefit forecast

is a positive saving, it is below the Life to Date target of \$2.6 million due to current economic conditions and ongoing cost pressures on businesses.

Fraud, waste, and abuse detection (Analytics)

36. Utilising a preventative approach, ACC continues to meet its ICIP benefits target for reducing fraud, waste, and abuse by realising Life to Date benefits of \$49 million, \$12 million above the target of \$37 million.

Vocational rehabilitation

37. Use of a more tailored and timely approach to vocational rehabilitation has resulted in continued benefits in this area, realising a total Life to Date saving of \$70 million against a target of \$42 million.

Provider performance (Health Sector Strategy)

38. The overall Health Sector Strategy claims cost savings are currently \$51 million, \$4 million above the Life to Date target of \$47 million. Key contributors to the Life to Date performance include Integrated Care Pathways, Training for Independence¹⁰ and GP referred MRI¹¹.

Challenges

39. Challenges are being seen in the following benefit areas:

Resource Efficiency¹²

40. Resource efficiency measures the productivity gains ACC has made through resource reductions, future resources it has avoided hiring, and the number of claims that can be processed per resource.
41. This benefit is the primary contributor to the reduced NPV discussed in paragraph 29. Overall resource efficiency performance has continued to decline due to lower than forecast new claims numbers¹³ (-14% since October 2020).
42. Higher volumes of claims require more staff to process them, and to support the infrastructure that allows staff to process these claims. Because ACC resourced to meet projected claim volumes, lower volumes than projected meant it had more resources available than were needed to process these claims at a high efficiency rate. This has resulted in a resource efficiency Life to Date result of -\$27.2m (\$44m below target).
43. The impact of the low claims volume has resulted in a significant drop in the expected value of this benefit into the future. The reduction in expected benefit from resource efficiency accounts for 78% of the reduction in the forecasted NPV by 2031 discussed in paragraph 29.
44. While some improvement in resource efficiency is expected as claim volumes start to return to pre-COVID levels, this benefit stream is unlikely to return to previously forecast values as future new claim registrations are unlikely to increase to a level that offsets this loss. ACC will need to actively manage its staff count going forward, so that the impact on this measure is contained.

¹⁰ ACC has implemented improved clinical criteria for referrals into Training for Independence programmes, which support injured New Zealanders to live more independently, to ensure that this support is being offered to the clients who can benefit from it most.

¹¹ This initiative means ACC clients with qualifying injuries can be referred for an MRI by their GP, rather than needing to visit a specialist before they can access an MRI, resulting in improved diagnosis time.

¹² 'Resource' includes – FTE, (full time equivalent staff members) and contractors at ACC.

¹³ Rolling 12-month average

45. The social landscape of both Aotearoa and ACC has changed significantly since the resource efficiency target was set in 2014. As ACC has increased its focus on important areas such as the prevention of injuries and the equity of access to and outcomes from the scheme, it has become clear that the measure of success in this area lacks the flexibility and nuance to account for these shifting priorities.

46.9(2)(f)(iv)

[REDACTED]

Rehabilitation Performance (Reduce Average Weekly Compensation Days Paid)

47. Rehabilitation performance remains behind target (Life to Date actual is \$24 million below target).¹⁴ ACC's analysis of claim data shows that clients with more complex claims have remained on the Scheme longer while the volume of shorter-term claims has dropped significantly.

48. These changes reflect delays in accessing treatment as the health sector remains under pressure. Clients with more significant injuries have had to wait longer for essential treatment, and potential clients with minor injuries are less likely to lodge claims as their injuries may resolve in the time it takes to lodge a claim. These factors have impacted ACC's ability to achieve the ICIP target to reduce average weekly compensation days paid.

49. ACC initiatives to improve client outcomes continue to roll out across the country. Teams have been established to focus on improving rehabilitation outcomes throughout the client journey, and further work is underway to refine performance reporting, increase capability and capacity, and promote access to rehabilitation services.

Trust and confidence (measured using Net Trust Score)¹⁵

50. Net Trust Score (NTS) surveys Clients, Business Customers and Providers on a quarterly basis. It is a method of measuring client trust and confidence by subtracting the percentage of clients with low trust from those who provide a high trust score.

51. NTS asks respondents to rate their trust and confidence in ACC on an 11-point scale, where 0='no trust and confidence at all' and 10='full trust and confidence'. The NTS is then calculated by subtracting the percentage of clients with low trust (0-6) from those who provide a high rating (9-10).

52. A negative score indicates that there are more low trust scores than high trust scores, however it doesn't take into account those who provide a neutral rating (7-8).

53. While not measured using NTS, general public trust and confidence in ACC was measured at 64% for quarter four 2021/2022 financial year.

54. NTS for providers, clients and business customers can be seen below.

Provider

55. Provider trust and confidence continues to perform below expectations, with quarter four financial year 2021/22 NTS score at -35, below the target of -13. With the exception of

¹⁴ Rehabilitation performance benefits target and realisation is outlined in Appendix 3.

one group, scores for all Provider groups have continued to decline, with the lowest NTS being recorded by physiotherapists (-46) and GPs (-35).

56. There continues to be a range of external factors that negatively impact Provider trust in ACC. 18% of respondents indicating their general views about government/public sector negatively impacted their views of ACC, and 13% noted economic pressures (particularly physiotherapists).
57. To improve the drivers of trust that are within ACC's control (consistent decision making, ease of dealing with ACC, the engagement regarding patients, and the administration of the Scheme) ACC has focused on the following initiatives: continuation of Integrated Care Pathways; continued development of the technology platform 'Provider Hub'; ongoing development of services that deliver culturally appropriate care through Kaupapa Māori Health Services; and expansion of GP referred MRI.

Client

58. Client trust and confidence performed below expectations for the last two quarters of the 2021/22 financial year.
59. The Client NTS result of +19 for quarter four financial year 2021/22 is below the target of +31. For Maori clients, the NTS of +23 is below the target of +28.
60. Despite this measure being behind target, it indicates that there are more clients who have trust and confidence in ACC than there are that don't. Clients continue to rate staff empathy and understanding relatively highly, and three quarters of clients agree that ACC is focused on the best possible outcome for them.

Business

61. Business trust and confidence also remains behind target with the NTS result at -24 against a target of -5 for quarter four financial year 2021/22.
62. Key drivers of Business trust, 'ACC provides their business with real benefits and value' and 'ACC delivers value to their business by making it easy to deal with them' remain low.

Future reporting on ICIP

63. I will provide Cabinet with a final update on ACC's delivery of ICIP initiatives and its responses to the challenges identified above upon the completion of delivery.

64.9(2)(f)(iv)

65. Following the delivery of all ICIP initiatives by 30 June 2023, ACC will continue to keep me informed of benefit realisation on a quarterly basis via ACC's regular reporting and meetings with Treasury and myself.

Portfolio risk, monitoring and assurance arrangements

66. Portfolio risks are reviewed and updated quarterly to the ACC Executive and ACC Board, with the overall portfolio risk remaining stable at medium.
67. ACC regularly refreshes its ICIP Assurance Plan. To date, independent quality assurance and internal assurance have been delivered as planned. ACC will continue to update me on its monitoring and assurance practices in its quarterly reports.
68. Ernst & Young conduct regular Independent Quality Assurance reviews of the ICIP portfolio. The most recent review focused on the Health Sector Strategy.

Cross-agency collaboration

69. ACC continues to work with Te Whatu Ora, Department of Internal Affairs, and New Zealand Police on the use of new technologies including Digital Identity solutions, data sharing and Application Programming Interface services, and Microsoft 365.

Consultation

70. The Treasury and Ministry of Business, Innovation and Employment were consulted on this paper. The Department of the Prime Minister and Cabinet, the Department of Internal Affairs, Government Chief Digital Officer, the Ministries of Health and Social Development, Inland Revenue, the New Zealand Police and New Zealand Customs have been informed.

Financial Implications

71. ICIP is fully funded by ACC. The expected cost for ICIP is \$619 million against a budget of \$669 million.¹⁶ As at 30 June 2022, \$583 million has been spent, with \$36 million (including a \$16 million contingency) available for the remainder of the programme.¹⁷

72. ICIP is tracking below the original budget of \$669 million; is fully funded by ACC reserves and will not require additional government investment or an increase in levies.

Human Rights Implications

73. The proposals in this paper have no human rights implications.

Legislative Implications

74. The proposals in this paper do not require any changes to legislation.

Regulatory Impact Analysis

75. The proposals in this paper do not require a Regulatory Impact Statement.

Population Implications

76. The proposals in this paper have no gender implications. ICIP will result in improved service delivery for New Zealanders with injury-related disabilities.

Proactive Release

77. I propose to proactively release this Cabinet paper, subject to redactions as appropriate under the Official Information Act 1982.

Recommendations

It is recommended that Cabinet:

1. **note** that the current spending forecast for ICIP is \$619 million, with \$36 million (including a contingency of \$16 million for uncertainties) available for the remaining period
2. **note** that ACC is finalising the implementation of ICIP initiatives and is continuing to realise benefits from these initiatives. However, lower than expected claim volumes in the 2021/2022 financial year (based on Treasury forecasts of population and economic growth) have resulted in the need to revise the NPV target to \$163 million by 2031, with the full amount of \$300 million projected to be met by 2033

¹⁶ A \$50 million reduction to the original budget of \$669 million was made in response to the challenges presented by COVID-19.

¹⁷ See Appendix 1 for further breakdown of the ICIP cost forecast.

3. **note** that ACC acknowledges this is a change in the timeline of the expected value of this change programme, however it still reflects a significant benefit because of the changes initiated through ICIP
4. **note** that over the next 12 months, ACC will complete the implementation of ICIP, and close the programme by the end of FY 2022/2023
5. **note** that I will provide a final update to Cabinet after the ICIP programme is completed and, ACC will continue to keep me informed of benefit realisation on a quarterly basis via ACC's regular reporting and meetings with Treasury and myself

Hon Carmel Sepuloni

Minister for ACC

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Appendix 1: ICIP cost forecast as at 30 June 2022

Investments to 2023 (\$m)	Transformation Programme (2015 Cost Estimates)	Current Management Forecast (Life Time)	ICIP Baseline (Life Time) as approved through ICIP Cabinet Paper June 2018		
			Base Cost Estimate	Contingency	Total
Juno	\$46	\$92	\$93		\$93
Client Payments	\$66	\$85	\$75	\$50	\$125
Claims Front End Establishment	\$10	\$21	\$17	\$3	\$20
Analytics	\$13	\$33	\$15	\$10	\$25
Channels	\$32	\$42	\$47		\$47
MFP replacement	\$24	\$38	\$31	\$20	\$51
Programme Management	\$34	\$53	\$53		\$53
Other Transformation	\$55	\$44	\$44		\$44
Other Contingency	\$40	\$16		\$15	\$15
Total	\$320	\$425	\$375	\$98	\$473
Additional ICIP initiatives:					
Next Generation Case Management		\$74	\$38	\$20	\$58
Health Services strategy		\$38	\$30		\$30
Channel – continuous improvement		\$26	\$30		\$30
Eos upgrades – 8.8 & 9.x		\$20	\$30	\$10	\$40
Other Change Initiatives		\$37	\$38		\$38
Total		\$619	\$541	\$128	\$669

Appendix 2: ICIP annual financial benefit forecast for 2030

ICIP annual financial benefits as at 2030 (\$m)	December 2021 Update		June 2022 Update	
	2030 annual benefit estimates	Notes	2030 annual benefit estimates	Notes
Resource productivity Baseline: 532 Claims per resource	\$27m	Based on 562 claims per resource by 2025/26	\$11m	Based on 537 claims per resource by 2025/26
Return to work rates Reduce number of weekly compensation days paid from Claims Front End, NGCM, Health Services Strategy	\$43m	Based on 5.5-day reduction by 2028/29	\$44m	Based on 5.5-day reduction by 2028/29
Health care costs Reduction in treatment expenditure from rollout of current Proof of Concept trials	\$75m	Based on a \$75m p.a. reduction in health expenditure by 2026/27	\$75m	Based on a \$75m p.a. reduction in health expenditure by 2025/26
Other financial benefits	\$95m	Based on other savings across vocational rehab, OCL and cash claims, IR fees, levy cash flow, debt management and resource mix efficiency	\$94m	Based on other savings across vocational rehab, OCL and cash claims, IR fees, levy cash flow, debt management and resource mix efficiency
Sub Total – Gross benefits	\$239m		\$224m	
Less: recurring costs	-\$26m		-\$26m	
Total	\$213m		\$198m	

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Appendix 3: ICIP benefit realisation

The below table shows ICIP benefit realisation Life to Date (FY15 to June 2022) which performed above the March 2021 update estimates.

Table: Life to Date benefit realisation, (FY15 to June 2022)

ICIP life to date gross financial benefits (\$m)	December 2021 Update			June 2022 Update		
	Life to Date Realised Benefits	Life to Date Target (Mar 2021 update)	Variance	Life to Date Realised Benefits	Life to Date Target (Mar 2021 update)	Variance
Resource efficiency						
Increase productivity of staff	-\$3m	\$8m	-\$11m	-27m	\$17m	-\$44m
Return to work rates						
Reduce number of weekly compensation days paid	-\$108m	-\$99m	-\$9m	-\$133m	-\$109m	-\$24m
Health care costs						
Reduction in treatment expenditure from rollout of current Proof of Concept trials	\$33m	\$38m	-\$5m	\$51m	\$47m	\$4m
Other financial benefits						
Vocational rehab, OCL and cash claims, IR cost, levy cash flow, debt management and resource mix efficiency	\$138m	\$101m	\$36m	\$190m	\$132m	\$58m
<i>Total</i>	<i>\$60m</i>	<i>\$48m</i>	<i>\$12m</i>	<i>\$81m</i>	<i>\$87m</i>	<i>-\$6m</i>