

Minutes of a meeting of the Board of the Accident Compensation Corporation held at the ACC Board Room, Level 11, PwC Tower, 188 Quay Street, Auckland on Thursday, 28 February 2019 at 9.00 am.

Present

Dame Paula Rebstock	Chair
Ms Anita Mazzoleni	Member
Mr James Miller	Member
Ms Kristy McDonald ONZM QC	Member
Mr David May	Member
Ms Leona Murphy	Member
Dr Tracey Batten	Member
Mr John Brabazon	Member

In attendance

Mr Scott Pickering	Chief Executive	
Mr Mike Tully	Chief Operating Officer	
Mr Peter Fletcher	Chief Technology & Transformation Officer	
Ms Deborah Roche	Chief Governance Officer	
Mr Herwig Raubal	Chief Actuarial and Risk Officer	
Mr John Healy	Chief Financial Officer	
9(2)(a)	Head of Provider Service Delivery	Item 5.4
Ms Gabrielle O'Connor	Head of Client Service Delivery	Items 3.1 – 4.1
9(2)(a)	Head of Health and Safety Systems	Item 6.1
9(2)(a)	Head of Customer Insights and Experience	Item 5.2
9(2)(a)	Head of Operations Services	Items 5.2 – 5.3
9(2)(a)	Manager Corporate Secretariat	
9(2)(a)	Senior Associate Company Secretary	

1 Procedural Business

1.1 Apologies

There were no apologies.

2 Board only session

2.1 Chief Executive's Report

Mr Pickering discussed the following topics with the Board:

- Annual "State of the Nation" address to the Board focusing on priorities for the CE and Executive in calendar year 2019.
- Rehabilitation review update.
- Select Committee update.
- Cabinet ICIP presentation update.

3 Operational Reporting

3.1 ICIP Reporting

Mr Fletcher summarised the report, focusing on the following points:

- It had been another good month of progress in ICIP.
- For the Analytics project, performance testing at volume had started through the platform, and the initial results had exceeded expectations. In response to Board queries, Mr Fletcher explained that—
 - a fully functioning platform would be in place by June 2019.
 - there would be continuing investment in Analytics, but getting the working platform would be significant.
 - Management was happy with the testing of the information that came through the platform.
 - there were no significant business processes the platform could not handle, but as data was progressively added, issues may develop—however, nothing that would block the path to benefits.

- the remediation work covered three areas (Eos 8.8, Client Payments 1 (CP1), and Next Generation Case Management (Next Gen)), and it was still relevant.
- Eos 8.8 was on track for go live in March 2019. The dress rehearsal had uncovered some minor defects that were being worked through. The Executive go live decision would be on 5 March 2019. The Board would be briefed before the final go live decision on the weekend (9-10 March). In response to Board queries, Mr Fletcher explained that—
 - the worst that could happen would be to progress to the point where the go live could not be rolled back, and on Monday, 11 March, there was no working claims management platform. However, there were many checks and balances to ensure that that would not happen.
 - the final go live decision would likely be on Sunday, 10 March 2019. The Board emphasised that it would not take any undue risk, and that its approach would be risk-averse. The Board requested a conference call to be set up before go live, for Management to talk through the 'go/no go' decision with the Board. There was zero tolerance for clients not getting paid and the Board was willing to accept a delay to ensure clients would continue to get paid.
 - nothing that had occurred in testing was elevating his level of concern. There were about 28 severity three and four defects to be resolved. Further testing would be completed to ensure no remediation would be needed because of the fixes. Mr Fletcher confirmed that the majority of the assumptions Management had made were true, and he noted that many of the people working on the project had also worked on the Eos 8.1 upgrade a few years ago that hadn't gone well, and that their experience was being used for the Eos 8.8 upgrade.
 - the Eos 8.8 launch would not be the end of MFP and Pathway. Instead, this would take the Eos platform to its latest release, remove some customisation, and put some useful products in place, like the Claim on a Page programme and a calendar that showed future-dated tasks. Pathway would continue operating until at least 2021.
 - as part of the go/no go decision, the project would be locked down, tested, and a recommendation made to the Board. There would be time to back it all out if needed. However, after midday Sunday, 10 March, systems were being updated and it would be difficult to then go back.
 - Mr Fletcher's team had been working closely with Ms O'Connor's team on the business continuity plan for Eos 8.8 and the contingencies that might happen at go live and later. Mr Tully added that there was a plan in place to handle events if Eos 8.8 went down. It would be highly unlikely that the whole system would go down.

- CP1 would go live in May 2019, with tranche 1 of CP2 going live in November 2019, and at least one other tranche of CP2 in March 2020. Pathway would continue until after that, but each time a release occurred, the operating risk of Pathway would have been significantly reduced. In response to Board queries, Mr Fletcher explained that—
 - CP2 would have testing with the sprints, unlike CP1 where leaving performance testing to the end had created a risk of finding issues late in the piece. However, Management was not unhappy with the CP1 testing. Comparison testing of payments would occur between Pathway and the Eos platform. There would be the opportunity to roll back to the Pathway system if needed.
 - a Treasury Gateway Review had just been completed for CP1, and it reached the same conclusions as Management: timeframes were tight and there were risks, but there was no indication that go live could not be achieved by 6 May. Treasury had no 'do now' actions for ACC for CP1. In a separate Gateway Review for the overall portfolio, there were around seven recommendations, around four of which were 'do now' actions, and ACC was already working on three of the 'do now' actions. Nothing unexpected had come out of the reviews.
- Most of the Next Gen detail would be covered in Agenda Item 4.1. The issues that had been raised in the IQA review were being actively addressed by Management. Management would have liked to have been further progressed, but Mr Fletcher fully supported the proposal in front of the Board today. In response to Board queries, Mr Fletcher explained that—
 - it would be better if the November 2019 release had more certainty. The August 2019 release was locked in for delivery, Management had high confidence, and everything was well understood. For November, the detail still needed to be worked through. Essentially, the August release would bring a better experience than that available now in Launch Pad. Rollout would be in a contained area, allowing ACC to manage any issues, implement the model, and learn. The November release would build on that and further improve the experience, and would have checks and usability tests included in the process to ensure it worked for staff and customers.
- The Health Sector Strategy (HSS) would be discussed in more detail at the April 2019 Board workshop. The Board noted that it was critical for ACC to realise the benefits of the Proofs of Concept (POCs) done in the HSS. The Board also noted, given the issues that Claims Front End Establishment had had, and Mr Fletcher's acknowledgment (at the meeting of the Risk Assurance and Audit Committee the previous day) of a lack of process mapping behind that, there was an opportunity to do detailed process mapping in the HSS.

- While there was a lot of work still to do in ICIP, it was also important to uplift the systems changes in the Investments Team. The Board agreed with Mr Fletcher's suggestion to include a brief update in the monthly ICIP report on progress being made in the Investments area.

RESOLVED: The ACC Board resolved to:

Note the ICIP Report.

3.2 Performance Report

(a) Claims Costs

Mr Healy summarised the key points of the Claims Costs Report, focusing on:

- The increase in claims costs year-on-year, which would be picked up in the budget paper under Agenda Item 5.5.
- Claims in the motor vehicle account (MVA) were c.32,000 out of a total of c.2 million claims. The automated lodgement system understated the MVA claims by a few hundred claims. The root cause of the problem was an automated system trying to pick up what was previously classified manually. A team was working on automating the process better. In response to Board a query regarding the margin of error in the automated key word capture, Mr Tully explained that, when the work was all manual, the margin of error by staff was higher than with the new technology.
- Regarding injury prevention (IP), better accuracy and consistency in picking up some attributes of claims was being pursued. For example, some claims attributed to rugby league should have been attributed to rugby union. The Analytics platform would automate this currently manual process.

The Board discussed the 22% decrease in death and serious injury crashes in Auckland that had been achieved this year following the Police having re-establishing its previous degree of enforcement activity, amongst other actions. The Board proposed that ACC challenge itself in the new budget on how much it could achieve by working with its partners. Ms Roche explained that part of the issue had been that agencies defined 'serious injury' differently. The Board queried whether definitions were obscuring the data. In any event, the Auckland statistics highlighted the significant achievements that could be made through IP, and working with other agencies. Management would also look at the findings of the NZTA review into its certification processes for warrant of fitness issuers.

The Board discussed the extent to which ACC could influence claims costs drivers, and the extent to which medical professionals and physiotherapists may game the system. Management did not believe there was a systemic problem. It was an issue of outliers.

(b) Operational and Financial Performance Report

Mr Healy highlighted key parts of the report:

- Review performance continued to trend positively.
- Privacy and Health & Safety were also trending positively.
- On rehabilitation performance, Management was obtaining an external perspective and a benchmark against best practice.
- In response to Board queries—
 - Mr Healy explained that the key driver of worsening performance was the volume of claims, which had increased by 60%. Meanwhile, the number of employees had remained static. Mr Tully added that actions were in place to stabilise performance and not let it deteriorate further, but it did not make sense to bring more staff on board now.
 - Mr Healy agreed that the volume increases would be reviewed for the budget, and there would be more of a focus on cross-checking broader areas like the economic cycle, case mix, etc.
 - Mr Tully would bring to the Board, in the near future, benchmarking rehabilitation data from Victoria's Transport Accident Commission and from the British Columbia scheme. That would provide comparative information for ACC. Mr Tully explained that those projects would be unlikely to be factored into the budget for this year.
 - Ms Roche explained that the Head of Privacy had followed up with the teams and locations that had seen a spike in Level 1 privacy breaches in January 2019, and that he was comfortable with the actions being taken.

RESOLVED: The ACC Board resolved to:

- (a) **Note** the Claims Cost Report.
- (b) **Note** the Operational and Financial Performance Report.

4 Board Papers

4.1 Next Generation Case Management Approach and Financial Update

Mr Tully introduced the update, covering:

- A recap on how ACC had arrived at the decision it was asking the Board to make at this meeting.
- The consultation that would be undertaken with the Minister, ACC leaders, and then all staff.
- The major elements that were now identified as BAU activity that previously were part of Next Gen. These were leadership bootcamps, telephony, and personal injury claim type. Several options were being evaluated to move away from the highly customised ACC45 form.

In response to Board queries, Mr Tully explained that the Executive and leadership teams were all in favour of the approach; no one was highlighting areas of risk outside those already highlighted to the Board; and there were no risks he was losing sleep over. ^{9(2)(a)} indicated that PwC was supportive that ACC was ready to scale Next Gen. He explained that the plan underway was progressing well and the transition did not have too many major risks. Mr Fletcher reported that ^{9(2)(a)}, who was unable to attend the meeting, had text messaged him affirmatively.

The Board commended the quality of the paper, noting it answered the Board's questions and explained the cost differences. However, the Board challenged the improvement in weekly compensation (WC) days paid by 1.25 days, in the benefits section of the paper. Mr Tully explained that Management wanted to under-promise and over-deliver, and that Management was progressing toward higher targets. Mr Healy added that the total benefit was the same as in the original case. Attributing benefits to any one piece of work was difficult and Management was committed to achieving a 5.5-day improvement through ICIP as a whole. Management agreed to add a recommendation addressing this issue.

In response to further Board queries—

- Ms Champness confirmed that Management had thought about how the Option 2 approach would impact staff, the team environment, and motivation. By doing the consultation all at once and early, people whose jobs were affected would have more options and would also have priority for other roles that opened up across ACC. Management would be taking a regular pulse of impacted areas and would share that information with the Board.

- Mr Tully agreed to ensure that items that were no longer part of Next Gen were also removed from the original business case comparator, to allow the Board to see a like-for-like comparison.
 - Mr Tully explained that clinical pathways would mostly be addressed through the HSS. Ms O'Connor explained that the intention was to integrate with the HSS work so there could be a shared view of care with the provider, client, and ACC, all available on MyACC.
- Ms O'Connor explained that Hutt Valley would see the largest percentage change in location, as many of the functions in the Hutt Valley would be brought into the Wellington hub. Ms Champness explained that the messaging focused on how the change was supporting ACC customers—it was not about efficiency gains for ACC.

The Board asked for additional reporting on Next Gen for the next six to nine months.

RESOLVED: The ACC Board resolved to:

- Note** the updated cost and benefits for Options 1 and 2.
- Note** the total project cost of \$73.3 million (excluding contingency funding of \$8 million) exceeds ICIP baseline for NGCM of \$54.3 million (excluding contingency funding of \$7 million) as approved in June 2018. The additional \$20 million (including contingency) required will be funded by overall forecasted underspend within ICIP.¹
- Note** that Option 2 costs \$2.6 million more than Option 1 due to some repeat roll out activities and support of manual workarounds.
- Note** that the overall ICIP cost of \$669 million will remain unchanged.
- Note** that the benefits profile for Option 2 is consistent with the business case, and commits to contributing \$431 million (cumulative) by 2030 to the ICIP.
- Note** that the Option 2 of the NGCM project will generate a Net Present Value of \$176.8 million over the 13-year period to 2029/30 at a discount rate of 7%, compared to \$188.8 million in the business case.
- Note** the recommendation from Management remains with rolling out with Option 2.
- Note** the proposed Option 2 approach for staff consultation in Phase Three starting from 18 March 2019.
- Note** the proposed external engagement approach that will be executed alongside of the Phase Three consultation.

¹ The numbers in this resolution were adjusted at the Board's request, after Management discussed the relevant figures with Board Members after the meeting.

- j) **Approve** the revised budget of \$73.3 million and authorise the Chief Executive or his delegate to approve its drawdown as required.
- k) **Approve** the revised contingency funding of \$8 million (set at 20% in response to the IQA finding) from within the overall Integrated Change Investment Portfolio (ICIP), held by the Board.
- l) **Approve** the transition into roll out beginning with the Phase Three consultation.
- m) **Note** that NGCM is a key part of delivering the wider ICIP change that has a committed weekly compensation reduction target of 5.5 days by 2023/24.
- n) **Note** that the attribution of the overall benefit is difficult to assign to any single project, but that Management is committed to delivering the overall target.
- o) **Note** that Management will continue to update the outlook of the weekly compensation days paid as NGCM progresses.

5 Board Papers

5.1 Future Dunedin and Hamilton Hub Workplace Locations

Mr Healy introduced the paper, explaining that some of the items reflected in the updated paper were to ensure competitive tension in the process, through ACC engaging with two parties for each location. Negotiations would result in a preferred party for each site.

In response to Board queries, Mr Healy explained that the development risk and cost and time exposures would be addressed in the negotiations with the parties. Management's negotiations with the parties would bear the Investment Team's potential interest in mind. Mr Healy agreed to seek an option for another floor in the developments, to allow ACC to expand in the future.

RESOLVED: The ACC Board resolved to:

- (a) **Note** that Dunedin and Hamilton are primary hubs in ACC's long-term property strategy and therefore decisions on future property development for these sites are of strategic significance.
- (b) **Note** that ACC proposes entering into development agreements which will result in long term leases and likely initiate the building of single sites by the landlords for each of the Dunedin and Hamilton hubs, and consolidation of existing sites into the single sites. ACC is not expected to be the sole tenant and is likely to occupy a third of the space or less in the current proposals.

- (c) **Note** the estimated timelines for both developments, with a projected completion date for both Dunedin and Hamilton of late 2021.
- (d) **Note** that existing lease arrangements at ACC's Hamilton and Dunedin sites provide a unique opportunity to consider new development options and that another similar opportunity is unlikely to arise for at least another six years.
- (e) **Note** the preference for a single new-build site option at both Dunedin and Hamilton over existing, multi-site options due to overall higher perceived benefits.
- (f) **Note** the proposed new-build developments would reflect an NBS (New Building Standard) rating of at least 100% and that they would meet appropriate environmental standards.
- (g) **Note** two of the proposed development partners for Dunedin and Hamilton (Ngāi Tahu and Tainui Group) provide an opportunity to partner with Māori, to explore further mutual opportunities and to deepen ACC's engagement with the local communities, consistent with ACC's Whāia Te Tika strategy.
- (h) **Note** the estimated present value cost over 10 years, comprising mainly lease and fit-out costs are as follows:
- i. Dunedin CBD (Ngāi Tahu) new build option estimate is \$37 million
 - ii. Dunedin CBD (Logic Group) new build option estimate is \$34 million
 - iii. Hamilton fringe CBD (Tainui Group) new build option estimate is \$35 million
 - iv. Hamilton fringe CBD (Focus on Property) new build option estimate is \$35 million
- (i) **Note** the estimated present value cost over 10 years for the four proposed new-build development options are estimated to be up to 1/3 higher than the existing development expansion options.
- (j) **Note** that cost estimations are Management's best estimates but are still subject to commercial negotiations and therefore subject to change.
- (k) **Note** that, as is common with new builds, there is an element of planning and development risk.

- (l) **Note** that, two proposals will be taken through to the next negotiation stage in both Hamilton and Dunedin. This is will ensure continued commercial leverage.
- (m) **Approve** Management proceeding with four single, new-build site options into the next negotiation stage with preferred development partners as follows:
- i. Dunedin CBD new build option with Ngāi Tahu as the development partner
 - ii. Dunedin CBD new build option with Logic Group as the development partner
 - iii. Hamilton fringe CBD new build option with Tainui Group as the development partner
 - iv. Hamilton fringe CBD new build option with Focus on Property as the development partner
- (n) **Note** the residual risks related to the selection process and the planned mitigation actions
- (o) **Note** that upon completion of the negotiations with the four development partners, a preferred option for each site will be presented for progression to final approval.

5.2 Customer Feedback and Issues Resolution

Mr Pickering introduced ^{9(2)(a)} [REDACTED], and explained that the paper outlined ACC's progress in the ability for customers to raise complaints. Complaints had grown because ACC had opened more channels for customers to express their views. Mr Pickering received customer insights every day. Incorporating feedback loops was a response to the 2014 review by the Office of the Auditor-General (OAG) into customer complaints. ACC had also built a superb resolution team based in Hamilton. The information presented to the Board at this meeting was the baseline, and Management was seeking feedback from the Board. Mr Pickering acknowledged the recent Australian reviews in the financial sectors, and he proposed that ACC aim to be a leader in this area.

^{9(2)(a)} [REDACTED] provided a handout on how customer feedback resolution would work. By providing more channels for customers to provide feedback, ACC had received more feedback—both negative and positive. Heartbeat was the most significant channel ACC had implemented. It was close to real-time, running 24-hours behind. Heartbeat was being used in Launch Pad.

The Board suggested that, where ACC's obligation is to report publicly on complaints, ACC should report on both positive and negative feedback. The Board cautioned against overreading the

significance of the data, as most feedback is from a self-selecting group who would have had extreme experiences, positive or negative. 9(2)(a) agreed and explained that Heartbeat was achieving a 17% response rate, while best practice was around 10% - 15%.

In response to a Board query, 9(2)(a) explained that the resolution team was centralised and trained and was led by an experienced negotiator and complaints resolution specialist. The Board commented that this was a huge area of legal and reputational risk to ACC and that negotiation and complaints resolution were not the only skills resolution team members needed. There was a real potential for information to take too long to get to the Board. The OAG recommendation around 'providing senior leadership, the Board, and the public with information on how the organisation has learned from complaints to make service improvements' had not been met and needed to be addressed. The Board needed intelligence on the systemic issues that were happening in the complaints area, with a risk-based lens applied to those issues.

The Board asked for more information on—

- the complaints with long tails, and how resolution could take over 100 days, the trends over time, and how lessons were shared across all sites; and
- insight into the customers, including the date of the complaint, the person's identity, and a brief summary of the issue.

The Board suggested that ACC needed to improve at identifying the very bad cases. The key was about how to elevate that information to the Board so it could understand what was going on.

In response to a Board query, 9(2)(a) explained that 9(2)(a) would be best placed to provide feedback on how ACC could improve its Māori engagement.

The Board suggested that reporting could include:

- trends—both the themes and the totals
- external benchmarks and an internal ACC benchmark
- what 'good' looked like.

In response to a Board query, Mr Tully explained that Heartbeat was being looked at to replace Gallup for Next Gen reporting to the Board.

RESOLVED: The ACC Board resolved to:

- (a) **Note:** Since ACC has increased the accessibility and visibility of its feedback/complaints channels, the number of recorded complaints has increased.
- (b) **Note:** The enhanced system in place to identify and respond to customer dissatisfaction, resolve complaints and manage any reputational impacts of customer issues.
- (c) **Note:** Provide feedback on the actions being taken to increase the visibility of customer feedback and complaints information to the Board. (Appendix 1: Draft Complaints Board Report)
- (d) **Note:** The progress made towards addressing the recommendations from the 2014 OAG review into ACC's handling of customer complaints.

5.3 Reviewer Services and Dispute Resolution

^{9(2)(a)} introduced the paper and explained that he was aware of the high level of public interest in reviews. Teams across ACC were ensuring the process was robust. The plan was to take all seven shortlisted providers to the next stage, and the Board would be updated on the outcome in April 2019.

In response to Board queries, ^{9(2)(a)} explained that—

- he had high confidence that the new approach would alleviate the historic problems. The planned system would have an anonymised scheduling tool where the Panel members put up times when they could conduct the review hearing. The Panel of providers would provide competition in the system.
- Management had not yet considered putting the customer's voice into the selection process to ensure that customers felt there was a choice and that the person providing the review was independent of ACC. The Board asked for that to be included, noting that this issue had arisen at ACC's Select Committee financial hearing.
- some of the providers who had scored low in the initial round were better performers than the application process had indicated, and they would be included in the next round of the process.
- the proposed 4.39% increase to FairWay was robust and was based on the lack of increase over the past three years. Mr Healy reported that he was comfortable with the increase.
- because FairWay had diversified its business, removing some ACC reviews from FairWay would not have as big an impact on FairWay as it might otherwise have done.

The Board expressed appreciation for ^{9(2)(a)} work, and acknowledged him as one of the Board's go-to people and as a very good leader with an outstanding team.

ACTION: Management to report back on the next stage of dispute resolutions contracts.

RESOLVED: The ACC Board resolved to:

In relation to the FairWay Contract:

- (a) **Note** that the FairWay Resolution Limited (FairWay) Dispute Resolution Services contract (FairWay Contract) expires on 30 June 2019 and ACC will not be exercising its two-year renewal option.
- (b) **Note** that the FairWay Contract may need to be extended if FairWay is not included in the new panel of providers as part of implementing a new Reviewer Services and Dispute Resolution solution (New Services Panel), solely to allow for existing claims as at 30 June 2019 to be completed.
- (c) **Note** that ACC's Corporate Delegations require the Board to approve all contract variations where the Whole of Life Costs (WoLC) exceed \$30 million.
- (d) **Delegate** authority to the Chief Executive to approve a variation to extend the FairWay Contract, should this be necessary to allow for existing claims to be completed.
- (e) **Note** that FairWay has a contractual right to request, and has requested, an annual price adjustment based on the increase to New Zealand's Labour Cost Index.
- (f) **Approve** a price increase of 4.39% to the FairWay Contract fee schedule, to be effective from 1 July 2018.
- (g) **Delegate** authority to the Chief Executive to approve the variation to the FairWay Contract (Appendix A).
- (h) **Note** that the increase, together with an anticipated volume increase of 3.9% for FY18/19, has a cost impact of up to \$1.2 million, resulting in WoLC of \$64.6 million for the FairWay Contract.

In relation to the New Services Panel:

- (i) **Note** that ACC has issued a Request for Proposals for Reviewer Services and Dispute Resolution.

- (j) **Note** the procurement process complies with both ACC Procurement Policy and the Government Rules of Sourcing.
- (k) **Note** that Board approval to shortlist providers for the New Services Panel is required by ACC's Corporate Delegations as the WoLC for the New Services Panel are \$184.9 million.
- (l) **Approve** the following shortlist of providers for the New Services Panel:
- i. CODR Limited
 - ii. Clayton Associates T/A Talk Meet Resolve
 - iii. FairWay Resolution Limited
 - iv. Gresson Dorman
 - v. Mediation Aotearoa Limited
 - vi. Meredith Connell
 - vii. New Zealand Dispute Resolution Centre
- (m) **Note** that shortlisted providers will undergo a further evaluation before a preferred panel of providers is selected.
- (n) **Note** that Board approval to select the providers for the New Services Panel is required by ACC's Corporate Delegations as the WoLC exceed \$30 million.

5.4 Contracts

- (a) Artificial Limbs

^{9(2)(a)} summarised the paper. In response to a Board query, ^{9(2)(a)} agreed that it had taken a long time to replace this contract and the new process was more sensible.

RESOLVED: The ACC Board resolved to:

- (a) **Note** that the current contract for Artificial Limb Services has been in place since 2003, was last reviewed in 2009, and has no end date.

- (b) **Note** that feedback from stakeholders indicates that the current contract for Artificial Limb Services is limited to the fitting and provision of a prosthetic device and misses opportunities to address the wider needs of clients.
- (c) **Approve** a new Artificial Limb Service contract commencing 1 August 2019 for an initial five-year term with two rights of renewal of three years and two years (5+3+2).
- (d) **Delegate** authority to the Head of Provider Service Delivery to approve the Recommendation to Select and subsequent contract award, after the open tender process.
- (e) **Note** that the Whole of Life Cost (WoLC) of the service including renewals is \$132.1 million and that ACC's Corporate Delegations section B3.1 require the Board to approve Recommendations to Select for contracts with WoLC of over \$30 million.
- (f) **Note** that new Artificial Limb Service contract is expected to cost 1.1% (\$116,000) more per annum than the current contract, but will deliver better client outcomes than the current contract.
- (g) **Note** the proposed new Artificial Limb Service contract has no material impact on the Outstanding Claims Liability, Levies or the Non-Earners' appropriation.
- (h) **Note** that the proposed tender process is compliant with the Government Rules of Sourcing and ACC's Procurement Policy.

(b) Escalated Care Pathways Update

9(2)(a) took the Board through a presentation which he handed out in hard copy: it showed that for shoulder, knee, and spine treatments, by the end of 12 months, 20% of people have not returned to work. The cost of surgery was growing faster than inflation and had a 12.7x multiplier for the OCL. There was an unsustainable increase in demand. For the anterior cruciate ligament (ACL) POC, the outcomes-based purchasing approach had reduced return to work times by four weeks and had halved the standard deviation. Two years into the POC there was a 30% lower level of same site re-injury.

In response to Board queries, 9(2)(a) explained that—

- two thirds of the South Island was covered by the ACL POC outcomes based purchasing. However, instead of covering the whole country, it was better to expand to include knees,

shoulders, and spines. While the ACL POC was successful, it represented only 1,800 of the 28,500 orthopaedic procedures ACC purchased every year.

- fully outcomes based purchasing would be achieved by 2023. ACC would run a parallel system in the meantime by paying fees for services for the other procedures. ACC was purchasing ACLs on an outcomes basis in the South Island from providers involved in the POC. In the North Island, ACC paid fees for services.
- Providers still needed to come together on a consortium basis, and open up the services to a wider range of procedures. If ACC focused solely on the ACLs only 1,800 of 28,500 procedures would be covered. The time and resource would be better put into widening the procedures.

The Board commented on needing to find ways to accelerate this, noting that practice will change significantly over the proposed four-year timeframe. 9(2)(a) explained that the approach allowed for scaling up and for building the evidence base as quickly as possible.

The Board asked that, for the April ICIP workshop, Management be prepared to answer the Board's question: What would you need to do to accelerate?

The Board discussed issues with provider IT systems, and whether it would be possible for ACC to facilitate shared IT platforms. 9(2)(a) cautioned that, with the plethora of systems, ACC needed to ensure it added value and not confusion. The Board asked that this issue be included in the April workshop.

RESOLVED: The ACC Board resolved to:

- (a) **Note** that movement to value based purchasing in health care is a core component of the Health Services Strategy, that requires changes in approach by both funders and providers.
- (b) **Note** that the Anterior Cruciate Ligament Proof of Concept undertaken in 2017-18 demonstrated significant gains to clients and ACC from value based purchasing, which can be extrapolated to other injury types.
- (c) **Note** that following an Expression of Interest process, ACC has been undertaking a co-design procurement process with six providers for the development of value based pathways of care for knee, shoulder and spinal injuries.
- (d) **Note** that the co-design process culminated in a Request for Proposal (RFP) issued to those six providers, seeking their submission of a final pathway design and commercial proposition.

- (e) **Note** that the costs and commercial models proposed through the RFP process indicate that the provider sector has not yet shifted its thinking to fully accommodate outcomes based models.
- (f) **Note** that ACC will engage further with providers at the conclusion of the RFP evaluation.
- (g) **Note** that approval to proceed to the contracting stage will be sought from the Board, as WoLC will be in excess of \$30m, later in the year.

5.5 Budget 2019/20

Mr Healy briefed the Board on the paper, focusing on the following:

- As CFO, Mr Healy had a heightened interest and concern in the cost and revenue trends.
- Mr Healy would provide to the Board a regular view of the impact of the figures from the different parts of ACC on the levy projections, Account by Account, forecasting for future levy increases.
- For claims costs, while there were drivers that ACC had less control over, more could be done with IP and using analytics better to ensure ACC's money was wisely spent. Opportunities included looking, on a real-time basis, at the trends behind the significant volume growth in new WC claims, and understanding what was driving them and what actions could be taken. For example, two thirds of the volume increase was from the Earners' Account, with a large proportion of it from males aged 15 to 54, engaging in activities outside of work. The IP team could look at that cohort and see what ACC could do to influence the trend.

The Board discussed the paper and suggested that, for the new budget figures, Mr Healy look across all the issues, including the economic cycle, case mix etc. Mr Healy would bring those elements to the Board's March budget discussion, acknowledging that the budget is set at a certain time and that it quickly becomes dated. For that reason, he was looking at doing rolling forecasting for the Board.

The Board queried the projected claims costs increases. Mr Healy explained that he was looking for efficiencies. He explained that the bottom line balance can move significantly due to interest rate changes and so on, but the underlying liability would continue to grow because the Scheme was not yet mature. Other factors like legislation change, pay equity, and WC continuance rates fed into underlying growth. Regarding solvency and the OCL, investment returns were expected to be lower than in the past. Mr Healy concurred with the Board that the future would be more difficult for the Scheme, as there was more upwards cost pressure, a growing population of age and

complexity, lower investment returns, and levy recommendations that the government had not approved.

In response to a Board query regarding sensitive claims volume growth, Mr Tully suggested that it may just have begun to settle. However, the cross-government work on sexual abuse was likely to result in it climbing again.

The Board cautioned Mr Healy to not project the growth too low in the new budget; to be realistic. The Board asked for transparency about ICIP costs and benefits. In relation to solvency and levies, ACC had told quite a good story about some of the efficiency gains we were finding, and that needed to continue.

RESOLVED: The ACC Board resolved to:

- (a) **Note** the context for the draft Budget 2019/20.

5.6 Quarterly Enterprise Risk and Compliance Report

Mr Raubal reported on:

- The reset to the style of the report.
- The risk profile, which had deteriorated across the organisation. Customer outcomes and people risk was driving this.
- There was slower progress on treatments, and questions about scope and what would change the risk profile, and questions about where activity was being directed, since there was no material improvement to the risk profile despite the treatments undertaken.
- Under the risk headings—
 - *Strategy risk*, the most important issue related to how to use the customer voice in all decision making. Some treatments against customer outcomes were not tracking.
 - *Finance risk*, regarding the solvency position, the levied accounts were on target, so solvency was not a problem *per se*. But the risk was that the current levy rates were not on target, so trajectory was a problem.

- *Change risk*, use of the BRAF framework was a positive step forward and the Executive was receiving weekly updates. EY's findings regarding agile versus waterfall were somewhat laboured. The root issue was around early warning systems and the First Line oversight by PMO. A developing theme was the risk relating to scope deferral, as projects are given a fixed time and budget, which are managed through scope changes. There was not enough transparency round that.

The Board discussed how to interpret the Dashboard of 14 enterprise risks in the report. Mr Raubal accepted there was a question as to whether there was consistency in the reporting and he would consider that further. As part of the annual business planning, the risk profile would be reset. The Board asked that Mr Raubal define what was meant by 'trending' for the Dashboard.

The Board commented on 12 out of 14 enterprise risks being rated High. Mr Raubal responded that Management felt that the organisation's risk was High.

The Board congratulated Mr Raubal for the quality of the report.

RESOLVED: The ACC Board resolved to:

- (a) **Note** this report, the update of aggregate risk exposures and analysis regarding underlying risk issues.
- (b) **Consider** the revised report template and provide feedback.

5.7 Review of Board Policies

The Chair of the Board Governance and Remuneration Committee reported on the discussion of the Board Policies at the Committee's meeting the previous day. She noted that the Corporate Secretariat had provided for the Board marked up copies of the Gifts and Hospitality Policy and the Travel and Reimbursement Policy, showing the changes that the Committee had requested. The Board requested further minor changes to those two policies.

RESOLVED: The ACC Board resolved, subject to the further changes agreed by the Board, to:

- (a) **Note** that the Board Governance Manual sets out structures, responsibilities, policies, and processes of ACC, providing Board Members, Board Committee Members, subsidiary company directors and ACC employees with an easy reference source and overview of ACC's governance policies and obligations.

- (b) **Note** the policies within the Governance Manual's Policy Annexure (Board policies) reflect good governance practice and are largely consistent with ACC's own corporate policies.
- (c) **Note** that the Governance Manual is kept up to date by the Corporate Secretariat and is available to the Board in the Resource Centre.
- (d) **Note** that the Board policies were considered by the Board Governance and Remuneration Committee at the Committee's February 2019 meeting.
- (e) **Note** that the Board policies were last reviewed by the Board in 2016.
- (f) **Agree** that the Board policies be reviewed at least every two years.
- (g) **Note** that only minor or semantic changes, or no changes, are proposed for the following Board policies:
- i. Code of Conduct
 - ii. Self-Evaluation Policy
 - iii. Complaints Policy
 - iv. Communications Policy
 - v. Training and Development Policy
 - vi. Visit to ACC Offices Policy
- (h) **Approve** the Board policies listed in Recommendation g), including any amendments as marked up in those policies.
- (i) **Approve** the amended Board Induction Policy, which has been rewritten to reflect a renewed Board induction pack.
- (j) **Approve** the new Board Technology: IT Equipment, Smartphones, and Document Management and Access Policy, which closely reflects ACC's staff IT policy.
- (k) **Note** that the Board Gifts and Hospitality Policy and Travel and Reimbursement Policy (Board Expenses Policies) have been amended to clarify roles and responsibilities for approving Board, and Board Member, expenditure.

- (l) **Note** that alcohol expenditure is sensitive expenditure and the Board Expenses Policies follow the standards and principles set out by the Office of the Auditor-General (i.e. have a justifiable business purpose, preserve impartiality, be made with integrity, be moderate and conservative, be transparent, and be appropriate in all respects).
- (m) **Approve** the amended (as marked up)—
- i. Gifts and Hospitality Policy; and
 - ii. Travel and Reimbursement Policy
- (n) **Note** the Delegation of Authority to the Chief Executive, a copy of which is in Appendix 11, was approved by the Board by resolution under section 73 of the Crown Entities Act 2004 on 1 December 2016, and no amendments are proposed to it.

6 Performance Reports

6.1 Health, Safety and Wellbeing Report

Ms Champness highlighted two issues: as a result of Management actions, the Lost Time Injury Frequency Rate had hit target for the first time this year. Secondly, at its previous meeting the Board had asked for more visibility on incidents and trends. This was provided in Appendix 2 to the paper.

In respect of the incident reported in Appendix 1 of the paper (vehicle driven in between doors of New Plymouth Branch foyer), the Board queried whether a hardened steel chain would be installed on the bollards outside the office, as hardened steel could not be cut through with bolt-cutters.

9(2)(a) would check. In response to a Board query as to whether every office had bollard protection, Ms Champness reported that every office had a form of protection. 9(2)(a) added that it was part of the site design and sometimes protections were put in place by the landlord, but needed to be checked regularly. The Board queried how the New Plymouth response plan would be rolled out to all sites. 9(2)(a) explained that all response plans were being reworked to ensure response roles could be taken up by people on site at the time of an incident.

The Board congratulated the Talent team for a very good report.

RESOLVED: The ACC Board resolved to:

- (a) **Note** actions underway to mature our safety system, demonstrate safety leadership and strengthen our safety culture.
- (b) **Note** there were no notifiable events in January 2019.
- (c) **Note** the health and safety performance indicators.

6.2 Legal Report and Policy Update

(a) Legal Report

Ms Roche briefed the Board on developments with the 'ordinary consequence' appeal to the Court of Appeal. Management was not anticipating a fixture in the first half of this year. This timing may be useful, as the OCL impact would be available by then.

RESOLVED: The ACC Board resolved to:

- (a) **Note** the High Court has granted ACC leave to appeal to the Court of Appeal against the High Court decision on the meaning of 'ordinary consequence' in the Treatment Injury Test Case.
- (b) **Note** an internal ACC Working Group is monitoring and analysing treatment injury claims for cover to assess the impact of the new High Court guidance on the meaning of 'ordinary consequence' of treatment.
- (c) **Note** that—
 - i. the Human Rights Review Tribunal declared the Social Security Act requirement for an income-tested benefit to be abated at 100% of weekly compensation unlawfully discriminates against the benefit recipient on the grounds of employment status; and
 - ii. ACC is working through the potential operational and policy implications of that decision.
- (d) **Note** a number of District Court Appeals due to be heard in the week beginning 25 February 2019 will likely attract media attention.

(b) Policy Update

Ms Roche presented the Report. She reminded the Board that when the legislative modernisation programme had slowed down in 2018, four areas of technical changes had been moved into the

Regulatory Systems Bill. ACC would be reporting to the Minister in the next couple of weeks on the next suite of these changes. The Board had already seen these.

In relation to the proposed change to the IP criteria, to relate benefits to the broader Scheme, the Board queried the possible risks of such a change, and whether there was not already enough flexibility in the statutory wording. The Board asked that Ms Roche provide examples in March's Board Policy Update of what ACC wanted to do under the current IP requirements but could not.

In relation to the Future AC Amendment Bill proposals in the paper, the Board queried the proposal to remove the TimeOut cover product and suggested that it may be better to make people more aware of it rather than remove it. With the way the future of work was likely to go, this product may have a greater uptake if more people knew about it. Ms Roche would remove it from the paper to the Minister and come back to the Board on it for the March meeting.

Ms Roche reported that, over the next few months, there would be several matters where the Minister controlled the timeframe for ACC's responses, which may well fall outside of the Board meeting cycle. She asked to have delegated Board Members to consider ACC's responses. The Board Chair asked that all proposals be circulated to the whole Board. Ms Roche could request delegated Board Members when timing was an issue. The Board agreed to delegate authority to the Board Chair to select certain Board Members, as needed, for undertaking reviews of ACC's responses.

RESOLVED: The ACC Board resolved to:

- (a) **Note** the current areas of policy activity.
- (b) **Note** ACC and MBIE intend to provide advice to the Minister over the next month on the following legislative change proposals:
 - i. Technical policy changes for inclusion in an omnibus Regulatory Systems Bill, to support customer experience, efficient service delivery, and effective interaction with other agencies.
 - ii. Improving the flexibility and effectiveness of injury prevention settings, to support ACC's injury prevention strategy.
 - iii. Ensuring consistency and certainty in the treatment of injuries that are consequent on another covered injury.

- iv. Extending work-related cover to volunteers, including a definition of a volunteer that will establish clear boundaries for cover.
 - v. Cover for work-related gradual process, disease or infection, where we will advise that the current legislative settings are appropriate.
 - vi. Removing the TimeOut cover product, which is rarely used and administratively burdensome to maintain.
- (c) **Note** ACC's advice on the legislative change proposals will be consistent with the direction previously agreed by the Board.
- (d) **Note** ACC will provide the Board with copies of Ministerial briefings on legislative proposals for information, via the weekly report.
- (e) **Delegate** to the Board Chair the authority to select one or more Board Members to consider and authorise the release of policy papers requiring a fast turnaround.

7 Committee Updates

7.1 Investment Committee

The Chair of the Investment Committee outlined the matters that had been considered at the meeting the previous day, including:

- Mr Brabazon would join the Investment Committee—the Board resolved to appoint Mr Brabazon to the Investment Committee, effective immediately.
- Performance over January had reversed the losses from December 2018.
- The property strategy had been considered in light of the Stafford case—it was clear that good title is paramount in property investments. Management had provided a very good paper on that. The possibility of a co-investment in the Dunedin and Hamilton property developments was considered.
- Cyber security and rogue trading had been considered. The Committee discussed obtaining the resources needed to fix the issues.

- A governance review of Investments was being undertaken by the Committee Chair. At present the review was at the information gathering stage.

The Board discussed the importance of the governance review and the risks around retaining key investments staff.

7.2 Risk Assurance and Audit Committee

The Chair of the Risk Assurance and Audit Committee (RAAC) outlined the matters that had been considered at the meeting the previous day, including:

- For the PBE reporting, the two outstanding audit findings had been discussed. RAAC had made a commitment on behalf of the Board to have the issue regarding use of manual spreadsheets by the Investments team resolved by Year End.
- The Risk Management Report had identified that risks had increased in several areas. RAAC had discussed whether some mitigation actions could be more effective.
- Eight IA reports had been considered, two in relation to ICIP. As the Chair of the Investment Committee had mentioned, findings in relation to cyber security and rogue trading indicated that some internal controls were not consistent with best practice, and this needed to be dealt with by 30 June 2019.
- The findings regarding IP had been surprising, in that there was no benefit attribution at initiative level, only at programme level, and there was poor risk management.
- The findings on Workplace Incentives were of greater concern regarding poor governance in decision making, and differing views between the Customer team and Operations team. The Board had noted high administration costs when the Workplace Incentives had come to the Board.
- For Health and Safety there was a programme for obtaining a full picture of third-party providers.
- Case Management and Complaints, dealt with in the OAG reports, had been brought to the Assurance team which had assessed them for meeting the OAG's findings as well as the Board's own requirements.

- There had been five reports on ICIP: CP1 was amber because performance testing was only occurring at the last sprint; two Next Gen reports were red, but it appeared that the findings had been addressed in the paper for consideration at this Board meeting, except in respect of the EY recommendation that rollout be broken down into further steps to reduce risk.
- Regarding Analytics, the benefits realisation plan was incomplete, but this was already known.
- The Portfolio Assurance (PA) report identified that the costs of Analytics do not take account of the wider impacts on BAU. At the April workshop, the Board would need transparent information on what has been taken out of projects and put into BAU. The PA report also highlighted that, when doing scope changes, planning for the transition to BAU needed to be undertaken.

The Board suggested having a post implementation review of the IP initiative of Mates & Dates, as there had been questions regarding whether the right groups had been targeted and whether there was payback on the programme.

The Board discussed the relatively low percentage of ACC's overall budget being spent on IP. The Board Chair provided historical background to the level of IP spend, and the previous position of having a 12-month ROI horizon. This culture was being turned around, and now investments were being made even though it was not always possible to obtain strong evidence. With sensitive claims having such strong growth it was very important to undertake IP around sexual violence.

The Board discussed the robustness of the ROI figures for IP, noting that there had been two Assurance Reports and audit reviews that had all concluded the figures were robust. The problem was that reporting did not go down to the initiative level.

The Board discussed the 'WhaleOil' blog comments that had been made about Mates & Dates. The Board noted that Ms Powell had been asked to report back to the Board on it.

ACTIONS: Management to—

- Undertake an Assurance Review of Mates & Dates for RAAC consideration.
- Report to the Board on the WhaleOil comments about Mates & Dates.

7.3 Governance and Remuneration Committee

The Chair of the Governance and Remuneration Committee (REM Committee) outlined the matters that had been considered at the meeting, including:

- Dr Batten would join the REM Committee—the Board resolved to appoint Dr Batten to the REM Committee, effective immediately.
- The reduction in the staff Net Promoter Score had actions in place to deal with it; diversity and inclusion initiatives had some good work being done.
- The remuneration approach for 2019. The Committee had provided feedback, and Ms Champness would come back to the Committee with further information at the April 2019 meeting. This would include further information on use of the KornFerry AllOrgs50 line.
- A mid-year increase to good performers in the 11-15 bands was endorsed. However, given the pressures now on the Scheme's solvency, care had to be taken with new initiatives.
- A proposed way forward for bargaining with the PSA.
- The Board's policies had been reviewed and a few changes suggested by the Committee (as had been discussed by the Board at this meeting).
- The appointment of ^{9(2)(a)} [REDACTED] as Chair of SecureFuture, an ACC investee company, was endorsed. The Committee had asked that external advice be sought for the Committee regarding health and safety risks resulting from that appointment and asked.

ACTION: Corporate Secretariat to obtain external legal advice on health and safety issues resulting from the appointment of ACC's nominee director as Chairman of SecureFuture.

8 Board Administration

8.1 Minutes

- (a) Minutes of Meeting held on 24 January 2019

APPROVED: the ACC Board approved the minutes of the meeting held on 24 January 2019.

- (b) Minutes of Meeting held on 20 December 2018

APPROVED: the ACC Board approved the minutes of the meeting held on 20 December 2018.

8.2 Schedule of Matters Arising

The Board noted that there were quite a few Pending items on the list of Matters Arising. The Board discussed the item on how the Board could monitor complaints (BRD. 18.11.5.1). The Board Chair explained the background for the benefit of the new Board Members. The Board discussed the importance of the Complaints paper from Management in the Board papers. The Board noted that the end of the Complaints paper referred to the OAG recommendations about regular reporting to the Board, and yet it was not addressed in the paper.

The Board discussed past incidents where an ACC staff member had been killed and where a Work & Income staff member had been killed. The Board discussed the importance of ACC's Remote Claims Unit (RCU), and whether at least one Board Member should do a site visit to the RCU to be satisfied that it was a safe environment for staff.

The Board **noted** the Schedule of Matters Arising.

8.3 Confirmation of Decisions Made Out of Cycle

RESOLVED: the ACC Board resolved to:

Note that no decisions were made out-of-cycle for the period 14 December 2018 to 17 January 2019 or 18 January 2019 to 19 February 2019.

8.4 Annual Work Programme

The Board Chair suggested that the Board carefully go through the Annual Work Programme at the next Board meeting.

NOTED: The ACC Board **noted** the annual work programme.

9 General Business

The Board resolved to appoint Mr Miller as Temporary Deputy Chairperson, in accordance with clause 5(2) of Schedule 5 of the Crown Entities Act 2004, until further notice.

10 Confirmation of Next Meeting

To be held at the ACC Boardroom, Level 11, PwC Tower, 188 Quay Street, Auckland on Thursday 21 March 2019 at 9.00 am.

Closure

The meeting closed at 4.15 pm.

Approved

Chair

Date

RELEASED UNDER THE
OFFICIAL INFORMATION ACT