

# **The Treasury**

## **Briefing for Incoming Ministers**

### **Information Release**

#### **Release Document**

#### **February 2017**

Key to sections of the Official Information Act 1982 under which information has been withheld.

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

[1]	to protect the privacy of natural persons, including deceased people	9(2)(a)
[2]	to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials	9(2)(f)(iv)
[3]	to maintain the effective conduct of public affairs through the free and frank expression of opinions	9(2)(g)(i)
[4]	to enable the Crown to carry out commercial activities without disadvantages or prejudice	9(2)(i)
[5]	to enable the Crown to negotiate without disadvantage or prejudice	9(2)(j)
[6]	to maintain the current constitutional conventions protecting collective and individual ministerial responsibility	9(2)(f)(ii)
[7]	that the information requested is or will soon be publicly available	18(d)
[8]	to protect the commercial position of the person who supplied the information or who is the subject of the information	9(2)(b)(ii)
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Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, a [1] appearing where information has been withheld in a release document refers to section 9(2)(a).

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9, section 6 and section 18 of the Official Information Act.

20 December 2016

Hon Michael Woodhouse  
Minister for ACC  
Private Bag 18041  
Parliament Buildings  
Wellington

Congratulations on your appointment. We look forward to supporting you as Minister for ACC.

You are starting your role with the Accident Compensation scheme on a relatively strong financial footing, with solvency for all five accounts above or close to funding targets, and improving public trust and confidence. There are, however, some big issues that require your consideration. These are set out in the attached briefing.

Treasury supports you and ACC through monitoring, governance and investment management expertise, to identify performance risks and offer system level oversight to the Transformation Programme.

Attached to this letter is a briefing on ACC. We are, of course, keen to meet with you to better understand your priorities and how we can best support you.

Gabriel Makhoulf

## Briefing for Hon Woodhouse Portfolio

Health	
<b>Secretary</b> , Gabriel Makhoulf <b>Deputy Secretary</b> , Struan Little	[1]
<b>Director</b> , Budget and Public Investment, Andrew Blazey <b>Manager</b> , Health and ACC, Ben McBride	[1]

### Executive Summary

Treasury provides support to the Minister for ACC through Governance and Performance advice on the Accident Compensation Corporation (ACC). We also support the Minister of Finance directly with advice for Crown Financial Institutions, of which ACC's investment function is one, and policy and fiscal advice.

ACC is on a sound financial footing but recent experience has seen cost growth that has impacted the Scheme's outstanding claims liability in the last two years. We have recommended a stronger focus on the performance framework in our refreshed monitoring approach. The current focus for linking actuarial assumptions to the performance framework sets the tone of performance to be consistent with historical averages and is not a driver of long term improvement.

ACC has included a financial provision reducing its Non-Earners' Account budget bid, representing improvement initiatives that are underway. We are pleased to see ACC establishing this accountability that will ultimately drive performance.

### Short Term Considerations

Treasury is currently advising on one Board appointment, as the decision was taken not to reappoint Professor Gregor Coster and he now retires on 28 February 2017. [T2016/2420 refers] describes the current status of the search for a director with the required insurance and large scale business transformation skills to support the Corporation's strategic goals. Three further board membership considerations are due in 2017 with an added complication being the convention to withhold making significant appointments in the pre-election period.

The Minister for ACC is required to report to Cabinet on progress of ACC's Transformation Programme by February 2017. ACC is supporting the development of this Cabinet paper and Treasury will coordinate between ACC and Central Agencies for feedback or any comment to be included in the paper.



ACC has submitted a Budget 2017 bid to fund the lifetime cost of claims for the Non-Earners' Account (NEA). Treasury, in its Vote role, will consider this bid with the next stage of this process being the Vote Analysts' assessment due on 3<sup>rd</sup> February 2017.

We recommend that you discuss this report and Treasury's monitoring work programme at a meeting, scheduled at your convenience in 2017.

## Purpose of Report

This report provides a summary of Treasury's monitoring role as it relates to the Accident Compensation Corporation (ACC). It supplements briefings you will receive from the Ministry of Business, Innovation and Employment (MBIE), as your policy advisors, and ACC as the operational delivery agency.

We have assumed that you are familiar with ACC and working alongside a Crown Agency due to your prior Ministerial responsibilities. Therefore, a summary of Treasury's role as monitor for ACC has been included in the briefing with more detail on the Minister and Board roles included as an appendix only.

The main briefing focuses on Treasury's role as the monitoring agency for ACC, a general view on recent performance, priorities and upcoming work, and a list of useful documents to review.

## Treasury's Role

### ACC's entity form

ACC is a statutory Crown Entity (established by the Accident Compensation Act 2001) and a Crown Agent (pursuant to the Crown Entities Act (CEA) 2004)<sup>1</sup>. Crown Entities operate at arm's length from Ministers and Government departments and are expected to observe the 'no surprises' convention in their dealings with the responsible Minister and their advisors. Crown entities can also be required to report on performance to Parliament and to appear before Select Committees.

The Crown entity system relies on Ministers, monitoring advisors (Treasury's role) and entities working well together. Their particular responsibilities are set out in the Crown Entities Act 2004 and other legislation, and in guidance material issued by the State Services Commission<sup>2</sup>.

### Treasury is responsible for monitoring the performance of ACC

The ACC Board is the primary monitor of ACC performance. The Treasury represents the Crown's ownership interests in ACC, and provides independent analysis, commentary and judgement to the Minister of Finance and Minister for ACC on governance and performance of the CFI and the insurance function, respectively.

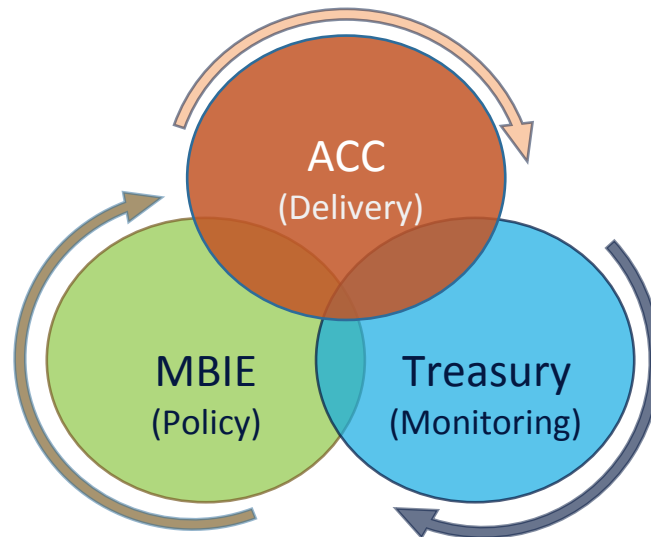
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<sup>1</sup> Other particularly relevant legislation includes the Public Finance Act 1989, and the State Sector Act 1988.

<sup>2</sup> It Take Three: Operating Expectations Framework for Statutory Crown Entities, SSC, July 2014.



Treasury works closely with ACC's finance function to understand performance and works across the executive to understand ACC's operational delivery. Treasury and MBIE work collaboratively to identify where policy opportunities may exist as a result of changing trends in performance and, particularly, to provide advice on levy setting and the budget bid for the Non Earners' appropriation. This tripartite relationship is illustrated below:



The decision to transfer responsibility for the performance monitoring of ACC to the Treasury was taken by Cabinet [Cabinet Minute (12) 33/4 refers] in December 2012. The new monitoring arrangements were due to be reviewed after 18 months but this was delayed in agreement with SSC. It is still worth reviewing these arrangements to ensure they are working as intended.

The Treasury holds multiple roles concerning ACC and aims to provide a consistent presence to Ministers. Therefore, advice that is provided directly to the Minister of Finance that could be relevant to the Minister for ACC executing his role would either be copied directly to the Minister for ACC or recommended to be forwarded by the Minister of Finance.

Role	Treasury Team	Responsible Minister	Comment
Performance Monitoring	Joe Sant, Health & ACC (Ben McBride, Manager)	<b>Minister for ACC</b>	Primary contact at the Treasury. Advice is copied to the Minister of Finance.
Board Appointments	Gael Webster, Commercial Operations (Chris Gregory)	<b>Minister for ACC</b>	Advice is copied to the Minister of Finance.
Governance and Performance of Crown Financial Institutions	Oliver Martin, Commercial Operations (Craig Weise)	<b>Minister of Finance</b>	Advice is copied to the Minister for ACC where relevant. For example: Ministerial approvals or advice on ACC's ethical investment policy.
Policy and Fiscal Advice to the Minister of Finance	Helen Anderson, Health & ACC (Ben McBride)	<b>Minister of Finance</b>	Advice is copied or forwarded to the Minister for ACC where relevant.

The performance reporting role is also your key contact for Treasury advice on progress of ACC's Transformation Programme. Treasury's Investment Management and Asset Performance team supports Performance Monitoring and coordinates the tri-annual reporting on



progress to Investment Ministers. The performance monitor will coordinate Central Agency advice on your upcoming progress report to Cabinet for ACC's Transformation.

The Minister of Finance has tended to have a strong interest in ACC from both a performance and financial perspective. ACC has a significant impact on the Crown balance sheet, it is often commented on at Economic Fiscal Updates, and also affects fiscal targets. Ministers agreed to have ACC fully included in cost pressure and Budget process from 2017 given these impacts. MBIE has captured interests in ACC from other Ministerial portfolios in its briefing to you.

## The Role of MBIE

MBIE is responsible for advising the Minister for ACC on matters relating to the scheme, and legislation and regulations governing the scheme. It administers the appropriation for the Crown funded Non-Earners' Account. MBIE also advises the Minister for ACC on portfolio commitments and other opportunities for the scheme to better deliver on its core objectives, as well as opportunities for the Minister to collaborate with ministerial colleagues to drive better outcomes for New Zealanders across government portfolios.

Treasury and MBIE work together to identify where policy opportunities may exist as a result of changing trends in performance, and particularly, to provide advice on levy setting and the Non-Earners' appropriation.

## The Role of ACC

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

Treasury works closely with ACC to understand Scheme performance through a monitoring framework illustrated below:

Efficiency	Effectiveness
<ul style="list-style-type: none"><li>• Services are cost-effective; Outputs maximised for the level of resource invested</li><li>• Controllable cost drivers are clearly identified and effectively managed</li></ul>	<ul style="list-style-type: none"><li>• Effectiveness of outputs to deliver quality outcomes</li><li>• Strategic planning consistently allocates resources to priority areas</li><li>• Performance comparative to historic or international benchmarks</li></ul>
Sustainability	Controls
<ul style="list-style-type: none"><li>• Financial management assures a stable levy track</li><li>• The liability identifies long term cost pressures and allows evaluation of impact that outcomes achieve</li><li>• ACC's investment approach balances delivery of short term improvements over a long term focus</li></ul>	<ul style="list-style-type: none"><li>• High quality financial and performance reporting: effectively identifies priorities</li><li>• Risk identification, and subsequent mitigations, deliver financial and operational resilience</li><li>• Planning effectively considers business pressures</li></ul>

## Setting of Expectations

Statutory Crown entities work to three sets of expectations. Treasury assists you in the second and third:

- The Enduring Letter of Expectations from the Ministers of Finance and State Services
- Ministerial expectations set forth in an annual letter to the ACC Board chair, to inform entities' strategic direction and priorities for the coming year, and



- Operating expectations, which guide engagement between the statutory entity, its responsible Minister and the monitoring department.

The ACC Board responds to the setting of expectations through its Statement of Intent (setting out the strategic direction for up to four years) and its annual Statement of Performance Expectations (referred to as the Service Agreement for ACC).

The annual Letter of Expectations was sent to the ACC Board chair in November 2016. The proposed Service Agreement, concerning the quality and quantity of services purchased or provided by ACC, is due no later than 28<sup>th</sup> April 2017 and must be signed by the Minister for ACC and the ACC Board chair 30<sup>th</sup> June 2017. ACC is not expected to produce a new Statement of Intent this year and will next update this prior to May 2018.

You may wish to:

- meet with the Board chair to discuss performance and strategic direction on a regular basis
- invite the Board to provide advice on its proposed strategy and priorities before these are included in a draft Statement of Intent or Service Agreement, and/or
- provide written comments, or enter into discussions with the Board, on draft Statements of Intent or Service Agreements prior to being finalised.

## Views on Performance

Treasury provides formal advice on ACC performance, primarily through quarterly briefings as well as being available to support performance conversations with the ACC Board chair as requested. A schedule of standard monitoring advice is provided in appendix 1.

### Key Points on Current Performance

ACC is in a strong financial position, with each of the levied accounts currently funded above the targeted solvency rate (the ratio of assets held against the liability of treatment, rehabilitation or compensation costs due for the duration of claims on ACC's books). The Non-Earners' Account is also close to the funding target at the time of writing. The strong financial position is due to an extended period of good investment performance and recommended reductions to levy rates not being agreed to in past years.

Performance monitoring tends to focus on the underlying trends in claim costs. As the volatile nature of discount rates and investment returns can shift the balance of assets versus liability by billions of dollars within a short time frame, we tend to focus on the underlying claims experience as the core controllable element to assure the ACC Scheme sustainability.

Recent claims experience provides a cause for concern. Alongside significant volume increases, particularly in Compensation claims, Treasury briefings also note price impacts across the majority of cost categories that are greater than volume or inflation increases.

ACC's liability is likely to increase due to underlying claim costs at the December 2016 revaluation. This deterioration will be reported on in ACC's quarter two report and Treasury's accompanying briefing. However there is likely to be a more than offsetting impact to the liability, due to increases in discount rates in the year to date and strong investment performance, which would see an overall increase in ACC's funding position.



ACC is strengthening its performance reporting, and we are encouraged that a clear narrative about underlying cost drivers is being developed with respect to controllable and uncontrollable impacts to Scheme performance. We feel that strengthening the performance framework to be the foremost driver of good performance is crucial to managing long-term impacts. The use of the performance framework is currently impacted by the supremacy of actuarial approaches at ACC.

ACC's liability is an excellent, and transparent, control mechanism for the use of providing a funding sufficiency assessment, and the identification of emerging trends that may require a management response. The downside to linking actuarial assumptions to the performance framework is this sets the tone of performance to be consistent with historic norms and not a driver of long-term improvement.

Incorporating improvement initiatives into performance targets and funding recommendations would drive management accountability. It would also improve incentives for efficient and effective performance that are naturally weakened in a statutory monopoly. ACC made a significant step forward in the Non-Earners Account budget bid by including a financial provision for three improvement initiatives it is undertaking in the coming year(s).

### Key Points on Board Appointments

Advice on Board appointments is provided in relation to board composition and skill sets, succession and term dates, candidates and supporting discussions on overall Board strategy.

The current Board appointments process is to replace Professor Coster with a board member with skills in insurance and large scale business transformation. Professor Coster's term ended 30 November 2016 but it was agreed to extend the appointment until the completion of the appointments process. Professor Coster resigned effective 28 February 2017.

Related to the appointment process the Treasury has now sought a fees review for an increase in the base fee rate for the Board and for special fees for any off shore director appointed to fill the pending vacancy.

CABMIN (13) 24/12 requires the ACC and WorkSafe Boards to share at least one board member. This shared role is currently filled by [2]

Three Board member terms end in 2017. It is possible these appointments will end during the three months pre-election period. [DPMC - CO (14) 2 "Government Decisions and Actions in the Pre-Election Period"] sets out the convention of governments to exercise restraint in making significant appointments in the pre-election period. The ACC Board is likely to be considered a significant appointment. Where the governing legislation allows (the ACC Act does) current appointments are usually extended until after the election period.

A summary of the ACC Board and its Skill Profile as at December 2016 is included as Appendix 2 in this briefing.





## Priorities and Upcoming Work

**Monitoring Refresh;** Treasury recently met with the Acting Minister for ACC to discuss proposed improvements to delivering the monitoring role. We would be available to come and talk to you about this work. In brief we:

- set out principles for engagement with ACC
- signalled an increased focus on long-term views to enable strategic discussion
- sought senior stakeholder feedback for our advice, and
- signalled the intent to develop comparator analysis, both across government and helping to define the models that might enable industry comparators.

The next step in the monitoring refresh work is to define a monitoring plan for the period through to June 2018. This will be developed by February 2017. We are also awaiting Board feedback on the conversation we held with them in November 2016.

**Non-standard work in the front six months** is already identified:

- Sensitive claims is a category that has seen significant growth since the sensitive claims clinical review<sup>3</sup>. We will work with ACC on the implementation of the response to the 14 recommendations in the review and the associated growth in the liability. We are interested in testing strategic alignment on the progress of this service delivery.
- Case management is a consistent deliverable for many government agencies. We are partnering with the Treasury monitor of Work & Income (W&I) as well as ACC and W&I as delivery agencies to assess good practice in case management. This work is expected to proceed from February and produce initial insights in this financial year.
- Treasury are reviewing ACC's liability valuation reports and financial condition reports over the last four years to understand the consistency of themes raised and management responses in that period. We expect to provide initial views for follow up from February 2017.

**Transformation Programme monitoring** remains a significant priority with the programme one year into a five year programme of delivery. We have high transparency over progress and appreciate quality conversations with the programme team. We can see that complex issues are raised and we are engaging to support the programme where possible. Treasury has been pushing for increased visibility of inter-dependencies with other large Transformation Programmes across Government and with other enabling agencies such as Health.

**ACC's strategic direction** will be considered ahead of the next Statement of Intent (April 2018). Recent progress on improving public trust and confidence and setting up a more robust approach to Injury Prevention initiatives are consistent with the current strategy. We are interested in the **March 2017 mid-term Performance Improvement Framework review** of ACC's progress towards the four year excellence horizon. The original review (October 2014) cautioned that tight control would be required over financial performance as service improvements were gained. We see the mid-term

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<sup>3</sup> Clinical Review of the ACC Sensitive Claims Clinical Pathway, September 2010 and subsequent monitoring reports by Dr. Barbara Disley.



review as influential to ACC strategic direction and expect that significant discussion with you should occur in the months following.

## Useful Documents

Document Name	Comment	Reference
Statement of Intent	Describes ACC's strategic outlook	<a href="http://www.acc.co.nz/about-acc/reports-and-strategy/index.htm">http://www.acc.co.nz/about-acc/reports-and-strategy/index.htm</a>
Service Agreement	Describes the quality and quantity of services purchased or provided by ACC Treasury briefings on the Service Agreement	<a href="http://www.acc.co.nz/about-acc/reports-and-strategy/index.htm">http://www.acc.co.nz/about-acc/reports-and-strategy/index.htm</a> T2016/677 and T2016/1157
Current Board Appointment Process	Commencement of process (2 August 2016) ACC Update on shortlisting (13 October 2016) ACC Shortlisting report (23 November 2016) Aide Memoire Update on shortlisting (6 December 2016)	T2016/1303 T2016/1822 T2016/2125 T2016/2420
Quarterly Reports	Quarter 4 2015/16 (Year-End position) Quarter 1 2016/17	T2016/1566 T2016/2272
Annual Report	Tabled in the house in October 2016	<a href="http://www.acc.co.nz/about-acc/reports-and-strategy/index.htm#P20_1372">http://www.acc.co.nz/about-acc/reports-and-strategy/index.htm#P20_1372</a>
Statutory Crown Entities: A Guide for Ministers	SSC, June 2014	<a href="http://www.ssc.govt.nz/crown-entities-guide-ministers">http://www.ssc.govt.nz/crown-entities-guide-ministers</a>
It Take Three: Operating Expectations Framework for Statutory Crown Entities	SSC, July 2014	<a href="https://www.ssc.govt.nz/it-takes-three-operating-expectations-framework">https://www.ssc.govt.nz/it-takes-three-operating-expectations-framework</a>



## Appendix 1: Schedule of Standard Monitoring Advice

Accountability Documents	Timing	Notes
Letter of Expectations	November	CEA (27 (1) f) refers. ACC's Board strategy day is at the end of November. First draft likely by end of October, for discussion.
Statement of Intent	April/May (as required)	ACC is not expected to produce a new statement of intent in 2016/17 as there is no significant change in its strategy.
Service Agreement	April/May	AC Act (271) and CEA (49, 149) refers Treasury provided two briefings on the 2016/17 Service Agreement [T2016/677 and 2016/1157 refer]
Performance Reports		
Quarterly Reports	November, February, May, August	Briefings support ACC's quarterly reporting schedule
Valuation Reports	December, June	ACC timings noted, Treasury receives the reports ~2 months afterwards and takes a long-term view of this information to prepare advice on strategic issues relating to scheme performance.
Financial Condition Report	November/December (Expected)	AC Act (278A) refers Treasury takes a long-term view of this information to prepare advice on strategic issues relating to scheme performance.
Major Projects Monitoring	March, July, November	Advises Investment Ministers and Cabinet (SEC) on the status of all high risk or high value programmes and projects including Shaping our Future. The report is subsequently published on the Treasury's website.
Other		
CFI Half Yearly Reports	September, March	Summarises performance of CFIs and investment markets, and discusses any CFI operational issues
Performance Improvement Framework – mid-term review	March 2017	Noted as an update for 2016/17 only, following up on progress from the October 2014 PIF review. This is likely to shape the Statement of Intent from July 2018.



## Appendix 2: Board Membership and Skills

Director	Region	Skills	Start date	End date
Paula Rebstock (Chair)	Auckland	[3]	11 Apr 2011	2 Sep 2018
Trevor Janes (Deputy Chair)	Auckland		3 Sep 2012	2 Sep 2018
Prof Gregor Coster	Auckland		1 Dec 2013	28 Feb 2017
Prof Des Gorman	Auckland		3 Sep 2012	2 Sep 2017
Anita Mazzoleni	Auckland		19 Jul 2014	18 Jul 2017
Kristy McDonald	Wellington		3 Sep 2012	2 Sep 2018
James Miller	Auckland		1 Mar 2013	28 Feb 2019
Jill Spooner	Canterbury		11 Apr 2011	18 Jul 2017



## Appendix 3: Entity Form (Detail)

ACC is a statutory Crown Entity and a Crown Agent that must give effect to Government Policy when directed by the responsible Minister. Crown entities operate at arm's length from Ministers and Government departments but are still expected to observe the 'no surprises' convention in their dealings with the responsible Minister and their advisors. Crown entities can also be required to report on performance to Parliament and to appear before Select Committees.

The Crown entity system relies on Ministers, monitoring advisors (Treasury's role) and entities working well together. Their particular responsibilities are set out in the Crown Entities Act 2004 and other legislation, and in guidance material issued by the State Services Commission.

### Roles & Responsibilities

Section 27 of the Crown Entities Act describes that the Minister is generally responsible for managing any issues of concern, or risks to the Crown, arising from the activities of the entity. Particular responsibilities include:

- to appoint and remove Board members to ensure an effective Board is in place
- to determine the remuneration of Board members
- to give directions to the entity where required
- to review the operations and performance of the entity
- to request information from the entity, and
- to participate in the process of setting the entity's strategic direction and performance expectations and monitoring the entity's performance.

The Treasury and MBIE, as the monitor and policy agency for ACC, respectively, assists you in carrying out these responsibilities. The ability to request information, per section 133 of the Crown Entities Act, is delegated to the monitoring agency(s).

### Core Accountability Documents

Statutory Crown entities work to three sets of expectations<sup>4</sup>:

- The Enduring Letter of Expectations from the Ministers of Finance and State Services
- Ministerial expectations set forth in an annual letter to the ACC Board chair, to inform entities' strategic direction and priorities for the coming year, and
- Operating expectations, which guide engagement between the statutory entity, its responsible Minister and the monitoring department.

The ACC Board responds to the setting of expectations through its Statement of Intent (setting out the strategic direction for up to four years) and its annual Statement of Performance Expectations (referred to as the Service Agreement for ACC).

The annual Letter of Expectations was sent to the ACC Board chair in November 2016. The proposed Service Agreement, concerning the quality and quantity of services purchased or provided by ACC, is due no later than 28<sup>th</sup> April 2017 and must be signed as final by 30<sup>th</sup> June

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<sup>4</sup> It Take Three: Operating Expectations Framework for Statutory Crown Entities, SSC, July 2014



2017. ACC is not expected to produce a new Statement of Intent this year and will next update this prior to May 2018.

## The Board's Role

The board of an entity has the primary responsibility for the entity's performance. The Minister for ACC appoints up to eight members to the ACC Board and Treasury advises you on these appointments.

Crown entity boards are the governing bodies of their organisations. In response to Ministerial expectations and in accordance with legislation, the Board of ACC sets strategy, sets and monitors key performance indicators, and is responsible for financial management, and associated reporting. You can also expect the Board and management of ACC to engage constructively with you and officials, and to work collaboratively with other public entities, to achieve wider Government goals.

Crown entity boards are expected to have good-practice self-monitoring processes in place to assess the individual and collective performance of board members and identify opportunities for development.

You may wish to:

- meet with the Board chair to discuss performance and strategic direction on a regular basis
- invite the Board to provide advice on its proposed strategy and priorities before these are included in a draft Statement of Intent or Service Agreement, and/or
- provide written comments, or enter into discussions with the Board, on draft Statements of Intent or Service Agreements prior to being finalised.

## The Role of ACC

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

Treasury works closely with ACC to understand Scheme performance through a monitoring framework illustrated below:

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Sustainability	Controls
<ul style="list-style-type: none"><li>• Financial management assures a stable levy track</li><li>• The liability identifies long term cost pressures and allows evaluation of impact that outcomes achieve</li><li>• ACC's investment approach balances delivery of short term improvements over a long term focus</li></ul>	<ul style="list-style-type: none"><li>• High quality financial and performance reporting: effectively identifies priorities</li><li>• Risk identification, and subsequent mitigations, deliver financial and operational resilience</li><li>• Planning effectively considers business pressures</li></ul>



## The Role of MBIE

- MBIE is responsible for advising the Minister for ACC on matters relating to the scheme and legislation and regulations governing the scheme. It administers the appropriation for the Crown funded Non-Earners' Account. MBIE also advises the Minister for ACC on portfolio commitments and other opportunities for the scheme to better deliver on its core objectives, as well as opportunities for the Minister to collaborate with ministerial colleagues to drive better outcomes for New Zealanders across government portfolios
- Treasury and MBIE work together to identify where policy opportunities may exist as a result of changing trends in performance, and particularly, to provide advice on levy setting and the Non-Earners' appropriation.
- MBIE and ACC have a close working relationship in order to deliver the scheme outcomes effectively.

## No Surprises

Under the 'no surprises' convention the boards of Crown entities are expected to:

- be aware of any possible implications of their decisions and actions for wider government policy issues
- advise the responsible Minister of issues that may be discussed in the public arena or that may require a ministerial response, preferably ahead of time or otherwise as soon as possible, and
- inform the Minister in advance of any major strategic initiative.

More generally, there is an expectation that the Minister, the Board and officials will maintain a positive and constructive three-way working relationship, and that relevant information will be communicated as freely, frankly, and openly as possible.

This includes information required to answer parliamentary questions, information required by/for parliamentary select committees, and information required for Budget and appropriation processes.



## Appendix 4: Treasury Monitor for Crown Financial Institutions Briefing to the Incoming Minister of Finance

[1]

### Overview

- There are 5 Crown financial institutions (the CFIs) monitored by the Treasury's Commercial Operations Group: New Zealand Superannuation Fund (NZSF): c.\$31b, Accident Compensation Corporation (ACC): c.\$36b, Government Superannuation Fund (GSF): c.\$4b, Earthquake Commission (EQC) / National Disaster Fund (NDF): c.\$1b, and National Provident Fund (NPF): c.\$2b (not on the Crown's balance sheet).
- Total Funds Under Management (TFUM) was \$70b as at 30 June 2016, and this represents nearly 30% of GDP and 24% of total government assets. Based on current Treasury modelling assumptions, the aggregate TFUM is expected to increase to around 50% of total government assets by 2060.
- The team that monitors the CFIs also has a co-monitoring role with respect to the New Zealand Venture Investment Fund (NZVIF). The lead monitor is MBIE.

### Key Themes

- Having financial assets set aside for special purposes at scale, and their continual growth as a percentage of the balance sheet, is relatively novel and places different requirements on the Crown as owner than may have existed in the past. We are actively evolving the capability and tools required for the Crown to be an informed owner capable of having an independent perspective regarding financial asset performance and risk and able to have appropriate discussions with the CFIs to manage those matters where it has a strong interest. Building stronger relationships with the CFIs has been and will continue to be a focus.

[3]

### Performance and Risk

- Aggregate return for the portfolio in FY16 was 6.1% (after costs, before tax) – 0.5% ahead of the aggregate benchmark, during a challenging year in financial markets.





- CFIs are generally concerned about the current investment environment and its implications on expected returns over the medium term—this is driving dialogue about increasing risk.
- Risk settings – The framework for the CFIs provides very little guidance to the Boards regarding the Crown’s objectives with regard to risk appetite. Ensuring the right dialogue with respect to risk, supported by the appropriate level of information, is a key area of focus. In the Letter of Expectations (LOE) that was issued to the CFIs by the Minister of Finance on 12 December (T2016/2369 refers), a number of requirements were made of the Boards with respect to increased focus on risk, including that they place appropriate emphasis both on quantifiable investment risk as well as the more qualitative non-market risks that are inherent in investment management activity. Boards have also been asked to consult with you if they are pursuing any strategic changes that may materially alter the risk profile.

### CFI Frameworks

[3][4]

[3]

### Miscellaneous

- Ministerial Approval letters – Under the statutes that govern ACC, GSF and NZSF, there are certain activities that cannot be undertaken by these funds without Ministerial Approval. Draft letters were provided to the Chairs of the CFIs outlining the process for any future Ministerial Approvals for such activities (T2016 1494 refers). Consultation with the entities has occurred. A Treasury Report containing the final letters will be submitted in early January, with final letters to be signed and sent by you in January. [4][5]

[3]



- Statutory reviews – A statutory review of each CFI is undertaken every 5 years. A statutory review of GSF was completed and reported on by PwC in 2016. A Treasury Report and letter for GSF will be provided in early February.

[2]

