

1. Portfolio overview: ACC

KEY ISSUES

For ACC the main issues are:

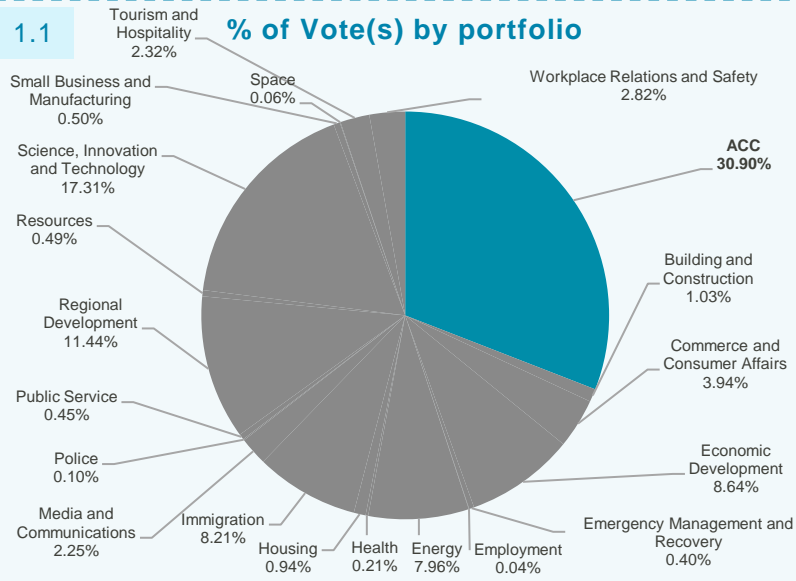
- The fiscal position all of ACC's Accounts is trending downward. The trend is strongest in Accounts where the Crown is purchasing cover (the Non-Earners' Account – funded through Vote Labour Market), even though Crown funding has steadily increased. The Earners Account is also increasingly under pressure.
- ACC's worsening performance is a material contributor to ACC's declining fiscal position. Rehabilitation rates have been declining over the past decade, and the decline has steepened over the past year.
- ACC consulted on levy rates for the 2025-2028 period. ACC's rates are based on the Government's Funding Policy Statement which aims for each Account to have a funding position of 100% (where assets equal liabilities), with annual levy rate increases capped at 5%. Cabinet will make decisions in November 2024.
- The Non-Earners' Account costs pressures are funded as a forecast adjustment each year, capped at 7.5%. Increases for 2025/26 and 2026/27 are already at the cap. The 2027/28 and 2028/29 increases will be around \$13m and \$234m respectively.
- FY23/24 accounts show an unexpectedly large movement in the Outstanding Claims Liability (OCL - the amount of money ACC forecasts it will need to pay in the future to support clients who are currently injured). Some of this increase is outside ACC's control (such as court rulings, legislative changes to scheme boundaries, and interest rate changes). A significant portion is within ACC's control (due to declining rehabilitation rates).

For MBIE's policy function, the main issues are:

- Resourcing the Minister's work programme within baselines, where we're frequently having to make trade-offs on the Minister's priorities.
- Managing the pace of work with providing quality advice.

SPEND BY PORTFOLIO

Note: Most of ACC's spend is in the levy funded Earners, Work and Motor Vehicle Accounts which is not represented in the graph below



TARGETS AND PRIORITIES

Government targets

No direct link to any of the nine Government targets. Possibly an indirect link to:

Target 1: Shorter stays in emergency departments

- Each year ACC reimburses the Crown for acute inpatient admissions or treatment at emergency or outpatient departments provided to ACC personal injury clients, known as Public Health Acute Services funding (PHAS). The 2024/25 PHAS payment is \$996.526 million, an increase of 19% from 2023/24.

Target 2: Shorter wait times for treatment

- ACC funding enables treatment providers to grow their businesses to meet demand. Having more sustainable treatment provider businesses impacts wait times.

Targets 3 and 4: Reduced child and youth offending and reduced violent crime

- ACC contributes to the Government's efforts to reduce family and sexual violence and provides injury data.

Strategic priorities

Maintaining ACC as a key social and economic institution to enable resilience for:

- businesses and other institutions, which can operate without risk of litigation for personal injury and with certainty that injured workers will be rehabilitated as quickly as possible.
- injured people, by providing treatment, income support, and rehabilitation based on need, to support health, independence, and participation, and reduce wage scarring following injury.

Portfolio priorities

Three key ACC policy priorities being progressed:

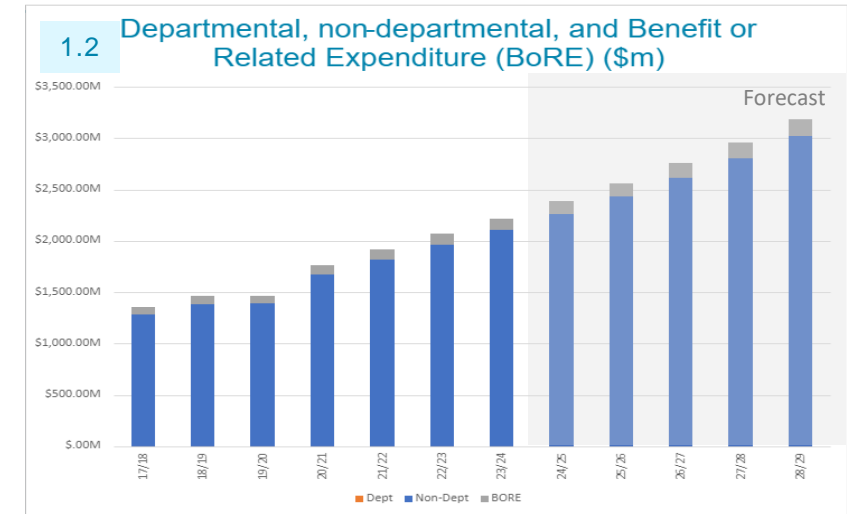
- Ensure ACC's regulations are efficient, effective, and current.
- Clarify the role of ACC and address boundary issues.
- Improve rehabilitation outcomes.

Monitoring and funding of Crown companies or entities

- Accident Compensation Corporation (monitored by Treasury)

EXPENDITURE BY TYPE

Note: Most of ACC's expenditure is in the levy funded Earners, Work and Motor Vehicle Accounts, which is not represented in the graph below



Recent changes in expenditure

For ACC key cost drivers include:

- Court decisions that expanded cover and entitlements wider than previously interpreted.
- Changes in inflation and wages impacting the cost of treatment, services, and weekly compensation.
- Changes in interest and discount rates, impacting forecasts of future costs and revenue from investments.
- Declining rehabilitation rates, resulting in people receiving weekly compensation for longer
- Numbers of sensitive claimants, and costs per claim, increasing
- Costs for those who are seriously injured increasing (including residential care)

For MBIE's policy function, key cost drivers include:

- There was a 10 percent drop in baseline crown funding in 2024/25

Expected changes in expenditure

For ACC key cost drivers include:

- Rehabilitation rates, sensitive claims and serious injury costs are expected to continue to drive further cost increases
- Interest rates are expected to fall, which puts downward pressure on ACC's forecasted revenue

For MBIE's policy function:

- Wage adjustments to policy FTEs driven by MBIE-PSA Collective Agreement.

2. Portfolio overview: Current specific fiscal risks, workforce, and third-party revenue

SPECIFIC FISCAL RISKS

Title / Description	Amount and Probability	Mitigations
Court decisions may result in more expansive cover and entitlements that current interpretations of ACC's legislation.	51% – 100% (Reasonably Probable)	Court cases have reinterpreted cover and entitlements, which have added costs and liability to the Non-Earners' Account. <small>Confidential advice to Government</small>
Revenue collected from ACC levies may be more or less than that required to cover the cost of claims.	51% – 100% (Reasonably Probable)	The Government will be considering levy rate increases in December 2024. Proposed levy rates are set in line with the Government's Funding Policy for ACC, which aims for levy rates to be sufficient for each ACC Account to be fully funded (where assets equal liabilities), capped at 5% per year. ACC's costs and liability continue to increase faster than forecast. To address this the Minister for ACC has prioritised improving rehabilitation rates <small>Confidential advice to Government</small>
Crown funding for the Non-Earners' Account may be more or less than that required to cover the cost of future claims.	51% – 100% (Reasonably Probable)	Court cases have reinterpreted cover and entitlements, which have added costs and liability to the Non-Earners' Account. <small>Confidential advice to Government</small>

DEPARTMENTS WITH THIRD PARTY REVENUE (INCLUDING TAX, FEES, LEVIES, EXCISE, DUTIES AND CHARGES)

WORKFORCE

2.2

Drivers and implications of change(s) in FTE

For ACC, drivers and implications include:

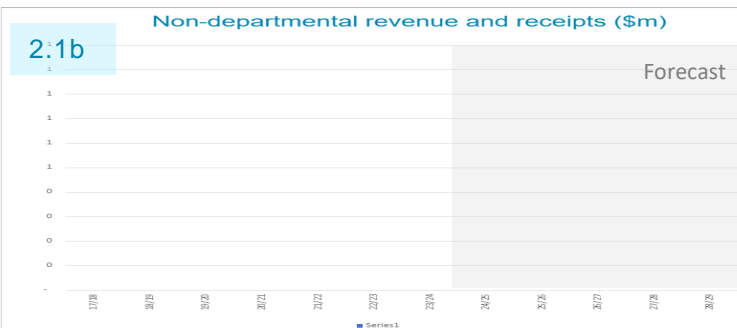
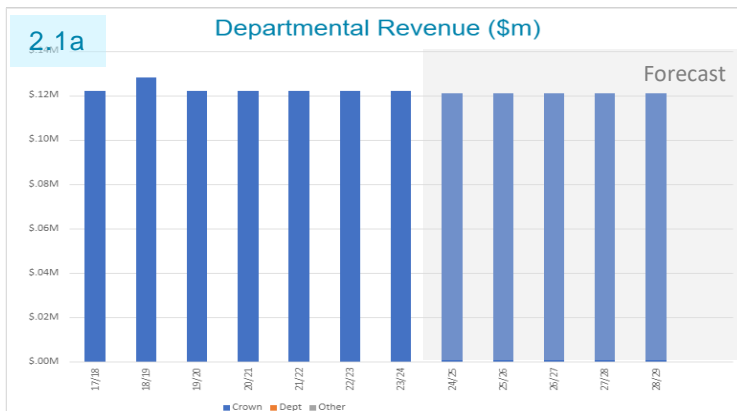
- Government expectations (in particular the Minister of Finance's expectation that public sector organisations to embed a culture of expenditure restraint and fiscal discipline, while still delivering for all New Zealanders)
- ACC consulted and finalised a new structure in September 2024. The new organisational structure has reduced the number of roles in ACC's supporting functions. At the same time, ACC is investing in approximately 250 additional customer-facing roles.

For MBIE's policy function drivers include:

- Ministerial priorities
- Legislative requirements (eg, reviews, regulatory stewardship)
- Not expecting any changes in FTEs

Revenue sources

Note: Most of ACC's revenue is from levies which is not represented in the graph below



Scenarios that could impact third-party revenue

Scenarios	Incidence in last 10 years	Likely in next 10 years?
Revenue collected from ACC levies may be more or less than that required to cover the cost of claims.	Yes	Yes
Crown funding for the Non-Earners' Account may be more or less than that required to cover the cost of future claims.	Yes	Yes

Indicative levy income and new year costs

	Capped levy income (\$M)					New year costs (\$M)						
	2024/25	2025/26	2026/27	2027/28	2028/29	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	
Motor Vehicle	\$483	\$526	\$572	\$622	\$676	\$734	\$954	\$999	\$1,043	\$1,086	\$1,132	\$1,178
Work	\$974	\$1,070	\$1,172	\$1,275	\$1,384	\$1,500	\$1,470	\$1,514	\$1,626	\$1,707	\$1,814	\$1,908
Earners'	\$2,750	\$3,005	\$3,302	\$3,597	\$3,910	\$4,266	\$3,573	\$3,781	\$4,007	\$4,292	\$4,558	\$4,822
Treatment Injury Earners'	\$119	\$131	\$145	\$158	\$173	\$189	\$263	\$274	\$292	\$308	\$326	\$344

As at 30 June 2024	Motor Vehicle	Work	Earners'	Treatment Injury Earners'	Treatment Injury Non-Earners'	Non-Earners'	Total
New year claim costs	\$954	\$1,470	\$3,573	\$263	\$313	\$2,277	\$8,850
Levy / appropriations	\$483	\$974	\$2,750	\$119	\$304	\$2,067	\$6,697
New year claims cost gap surplus / (shortfall)	-\$472	-\$496	-\$824	-\$143	-\$9	-\$210	-\$2,154
Current levy rate	\$113.94	\$0.63	\$1.33	\$0.06			

Activities funded by third-party revenue and when were they last reviewed

Activity name	% User funded	Date last reviewed	Date next reviewed	Material under or over recovery	Key performance measure and 2023/24 performance
Accident Compensation Act 2001	Earners, Work and Motor Vehicle Accounts 100%	2001	-	Under recovery for the Earners' and Non-Earners' Accounts Over recovery for the Work and Motor Vehicle Accounts	
2024 Levy round	100%	2021	2027	TBD	
2021 Levy round	100%	2020	2024	Under recovery for the Earners' and Non-Earners' Accounts Over recovery for the Work and Motor Vehicle Accounts	
Annual Non-Earners' Account forecast adjustment	Nil	October Baseline Update each year	OBU 2024	Under recovery	

3. Portfolio Managing within baselines: Current and future drivers

4.1

	Operating impact \$m increase, (decrease)					
	2017/18	2024/25	2025/26	2026/27	2027/28	2028/29
Total baseline*	1,354.52	2,384.43	2,562.69	2,753.84	2,959.32	3,180.22
Operating baseline	1281.68	2261.81	2430.83	2612.23	2807.08	3016.54
<i>Non-Earners Account - increased lifetime costs of injuries</i>	-	-	-	-	13.131	234.024
<i>Total wage pressures</i>	-	0.03	0.05	0.07	0.09	0.11
<i>Total other pressures</i>	-	0.00	0.01	0.02	0.02	0.02
Total cost pressures	-	0.03	0.06	0.08	13.23	234.15
Total reprioritisation/ savings	-	-0.03	-0.06	-0.08	-0.10	-0.13
Net impact on baseline	-	-	0	0	13.13	234.02

*includes all operating (departmental, non-departmental, Benefits or Related Expenses and revenue dependent appropriations). Benefits or Related Expenses and revenue dependent appropriations are removed in the operating baseline. Cost pressures in ACC's Earners', Work, Motor Vehicle Accounts are not included in this table. Wage and other pressures above refer to MBIE's cost pressures, not ACC's

Summary of cost pressures:

- The Accident Compensation Act 2001 requires that ACC's Outstanding Claims Liability (OCL) is fully funded either through levies or appropriations, while also balancing levy volatility, funding certainty, and long-run efficiency.
- The risk of not managing or fully funding the OCL is that the burden of today's injuries will fall on future generations and there will be less resilience to future shocks.
- In practice it means the amount each Account is liable to pay out is more than it has in assets. The Funding Policy aims to correct any over or under funding over a ten-year horizon. If the funding position deteriorates significantly, the time to correct underfunding will be longer than ten years.
- Any deficits also impact the Crown's balance sheet and OBEGAL.
- ACC's declining performance is having a material impact on its fiscal position.

Area	Description
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Confidential advice to Government

Improve rehabilitation rates	Improving rehabilitation rates will mean people spend less time receiving weekly compensation, which is a significant cost to the scheme.
2024 Levy round	The levy round is an opportunity to increase leavy rates which will offset some of ACC's increasing Outstanding Claims Liability.
NEA forecast adjustment	Increasing the NEA appropriations will offset the increasing Outstanding Claims Liability in the NEA.
Funding policy	The Funding Policy prescribes how ACC calculates its recommended levy rate increases. Changing the policy could allow ACC to recommend higher rates.

ACC'S OPERATIONAL DRIVERS OF COST PRESSURES

4.2

Claims costs (Forecast as at BEFU) \$m	2024/25	2025/26	2026/27	2027/28
<i>Treatment costs</i>	3218	3410	3597	3803
<i>Rehabilitation costs</i>	1691	1781	1869	1963
<i>Compensation costs</i>	2892	3097	3324	35440
<i>Miscellaneous</i>	68	72	77	81
Total claims paid	7869	8360	8868	9390
Claims costs (Forecast as at BEFU) \$m	2024/25	2025/26	2026/27	2027/28
<i>Claims handling costs</i>	644	656	661	683
<i>Other underwriting costs</i>	175	183	183	187
Total	820	839	844	870
<i>Investment costs</i>	70	72	74	75
Total operating costs	890	911	918	945

Plan for managing within baselines (Table 4.1) - for ACC this is interpreted as ways to offset the cost pressures rather than manage within baselines

3. Portfolio Managing within baselines: Current and future drivers continued ...

FUTURE DRIVERS

Pressure on scheme boundaries through:

- Increasing client and societal expectations of the AC Scheme.
- Courts' increasingly generous interpretation of legislation.
- Increasing complexity of claims (mental health and health comorbidities with injuries) making it difficult to maintain black and white boundaries of the scheme.
- Cost shifting across Government, or from NGOs, to fill social service gaps or to respond to crises.

Economic instability and impact on the scheme, including:

- rising health inflation putting pressure on cost of rehabilitation.
- cost of living making it more difficult for clients to participate in their rehabilitation where there are costs to them (potentially lengthen time to rehabilitate and/or cost to ACC to contribute more).
- rising rates of unemployment, which could impact weekly compensation costs (beneficial for scheme performance, but will have flow on effects to rest of public service).
- As budgets tighten across the public sector, ACC stepping in to contribute more to ensure clients have basic needs met to ensure they can participate in rehabilitation (example, increasing residential care costs).

Climate change: increasing global GHG emissions caused by human activity is directly linked to rising global temperatures and more extreme and frequent weather events:

- changes in the frequency and severity of claims.

Technology change: the development and adoption of new technologies, such as artificial intelligence, robotics and blockchain, could bring new opportunities and challenges for workers and businesses:

- could lead to advances in scheme operations and maintaining scheme boundaries (decision making support) or improvements in rehabilitation practices (increase rehab performance).
- could impact claim rates, as the future job market may be less risky.
- could lead to more non-work related claims as people have more time to engage in leisure activities.
- could impact on weekly compensation costs.
- could lead to transport mode changes, impacting both revenue collection and claims rates.

Demographic change: many countries, including New Zealand, are aging, putting pressure on labour markets and governments' finances, and increasing reliance on immigration. New Zealand's ethnic diversity is expected to increase, with an increasing share of the population being from Asian, Māori and Pacific ethnic groups:

- an aging population will have a gradual impact on the volume, types and costs of claims ACC receives each year claims. A more diverse population could impact how different groups access ACC.

Choices to mitigate/manage long term pressures

Policy that causes demand or demand driver	Options to manage this?	Lead time required to make changes?
Reduce ACC cover and/or entitlements	<ul style="list-style-type: none"> • Legislative change • Regulations 	2 years
More control/limits on costs	<ul style="list-style-type: none"> • Regulations • Operational changes 	1-2 years
Drive greater efficiencies	<ul style="list-style-type: none"> • Operational changes 	6 months

4. Portfolio Managing within baselines: Workforce and capability

Strategy for workforce costs, including remuneration

ACC:

- ACC supports the Government's priorities, while it gives operational effect to the Accident Compensation Scheme. This entails delivering entitlements that help clients get better faster and invest in things that will have the greatest positive impact for the Scheme and for New Zealand.
- ACC consulted and finalised a new structure in September 2024. The new organisational structure has reduced the number of roles in ACC's supporting functions. At the same time, ACC is investing in approximately 250 additional customer-facing roles. ACC intends to manage within operational baselines.
- To manage workforce costs ACC will maintain stability through controls in headcount and remuneration. The annual remuneration review is due in July 2025. While ACC takes the market rate across the public service into consideration, this is balanced against organisational performance and affordability.

MBIE's policy function:

- Bargaining is underway and we are unable to provide full details of MBIE's remuneration strategy while that is ongoing. The focus of MBIE's approach is to ensure workforce costs balance affordability alongside ongoing sustainability, and enable us to deliver MBIE's work programme.

Capability – non-workforce (e.g. organisational systems, processes, governance, technology and data)

ACC:

- ACC does not currently require any additional funding (outside of regular appropriation adjustment and levy funding mechanisms that apply to ACC) to meet any non-workforce capability gaps.

MBIE's policy function:

- MBIE has both a significant enterprise ICT infrastructure and technology platforms that underpin specific economic systems and engagement with businesses and the public – from key application processes (eg visas), registries (eg licenced builders), to contact centre help lines (eg tenancy).
- MBIE is investing in modern, cloud-based, scalable, multi-use platforms to reduce system complexity. Two specific areas requiring ongoing investment and effort are the transition of visa processing off legacy systems (Immigration) and the upcoming need to replace legacy assets that support the corporate registries (eg: the companies office). In the next 12-24 months moving off all on-premise data centres into the public cloud is also a key shift.
- Simplification and the considered use of AI will contribute to greater efficiency and effectiveness across the business. Cyber threats are a growing issue. In response we have already delivered a number of modern security tools as part of a zero-trust architecture. We continue to implement these across MBIE.
- MBIE collects and manages a wide range of data. We have invested in and are implementing a cloud data platform designed to make data more accessible, but also safe. This work is prioritised within our new Data Strategy which brings together new technology and data capabilities, and a new way of working to deliver the value of analysis and insights that shape policy and operational decisions at speed. MBIE has extensive governance and risk management systems in place, managing both strategic, policy and operational matters.

6. Managing with baselines: Investment and monitoring

MONITORING STATEMENT (IF APPLICABLE)

The Treasury monitors the performance of both the operational and investment parts of the AC Scheme and provides independent analysis, commentary and judgement to the Minister for ACC and the Minister of Finance on ACC's governance and performance. The Treasury works closely with both ACC and MBIE, as needed, to provide advice to Ministers on:

- ACC's annual Letter of Expectations to the board, ACC's annual Service Agreement and three-yearly Statement of Intent.
- ACC's second and fourth quarter reports, highlighting priority areas across financial and non-financial dimensions, and actions and levers to improve performance.
- ACC's six-monthly financial performance as a Crown Financial Institution.
- ACC's monthly rehabilitation performance.
- levy setting and forecast changes for the Non-Earners' account that is funded by government appropriation.
- agenda items to support his monthly meetings with the ACC Chair and Chief Executive.

ACC performance risks:

ACC's financial performance has been deteriorating, most recently with its FY23/24 accounts showing an unexpectedly large movement in the Outstanding Claims Liability or OCL, which is an estimate of the funds required to meet that the lifetime costs of claims made with ACC. ACC's 2023/24 OCL has worsened by \$8.7 billion, including an unexpected \$3.3 billion increase in forecast lifetime cost of claims where ACC has some influence ('the influenceable strain'), which includes:

- Rehabilitation performance
- Reactivation of historical claims
- Growth in care hours for serious injury clients
- Increased equipment utilisation
- Increased frontline FTE to support rehabilitation performance

Account solvency is also trending downward, particularly in accounts where the Crown is purchasing cover (non-earners), even though Crown funding has steadily increased.

Impact on fiscal indicators

ACC's operating losses are of such a scale it is impacting the Government fiscal strategy. In Budget 2024 forecasts ACC contributes an annual \$3.4bn hit to the Operating Balance Before Gains and Losses (OBEGAL). This constrains spending choices elsewhere given the Government's commitment to return to an OBEGAL surplus.

ACC could improve:

- rehabilitation performance, injury prevention outcomes and commissioning of health services, and
- efficiency and effectiveness to reduce operating costs

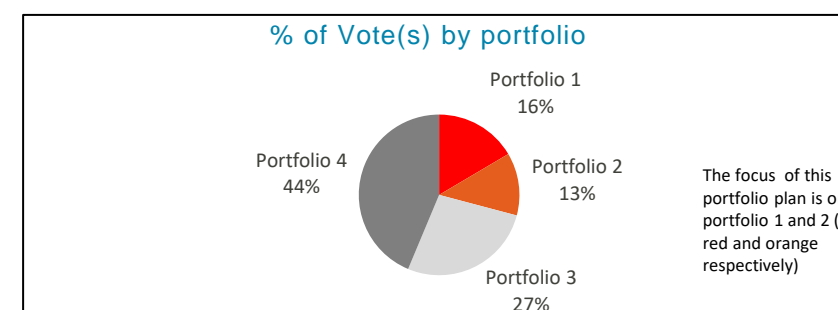
However, with claims costs growth currently outpacing levy rates and appropriations there will still be pressure on the OBEGAL balance even with improved ACC performance.

Individual portfolio plans

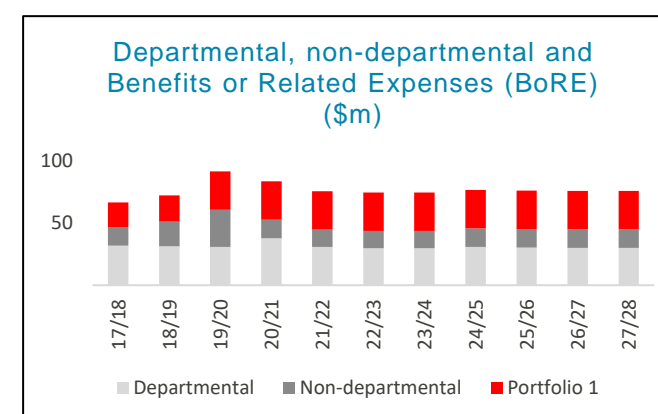
[GUIDANCE FOR AGENCIES WITH MULTIPLE PORTFOLIOS]

- Where departments have four or more Ministerial portfolios, they must still produce an overall department Performance Plan but **may** append separate portfolio information required to support the aggregate information supplied. As such, portfolio Performance Plans are optional.
- This slide provides guidance for how departments prepare portfolio Performance Plans.
- A full Performance Plan is not required for each portfolio (or group of portfolios if grouping portfolios is the best way of presenting information) and departments wishing to present portfolio information only need to complete the slides after this page. Departments are not to alter the template – except as otherwise contemplated on this page.
- Departments should copy the slides after this page for each portfolio/set of portfolios they wish to provide separate information on. Departments are not required to include information by portfolio on key impact areas, or investment and monitoring.
- Please ensure that for each new portfolio (or group of portfolios) the ‘Portfolio Overview’ slide title has the name of the portfolio/group of portfolios.

- On the ‘Portfolio Overview slide’ for chart 1.1 - please use the same chart as that used in 1.1 of the Departmental Portfolio Plan and grey out the portfolios that are not relevant and highlight the portfolios that are being discussed. Please insert a text box to be clear about the portfolio/s that are being discussed. For example:



- On the ‘Portfolio Overview’ slide for chart 1.2 please use the same chart as for the Departmental Portfolio plan but highlight the component of the bar graph that relates to the portfolio/s under discussion. For example:



- On the ‘Portfolio Overview’ slide – in relation to priorities and targets – please re-use information provided as part of the Departmental Portfolio Plan but just delete the ones that are not relevant to the Portfolio under discussion.
- On the ‘Managing within Baselines – Current and future drivers’ slide please note that each department is to produce only one Excel template titled ‘Cost pressures - Supplementary Information’ and upload it to CFISnet. Departments are asked not to replicate the Excel template for the Portfolio Plans.