

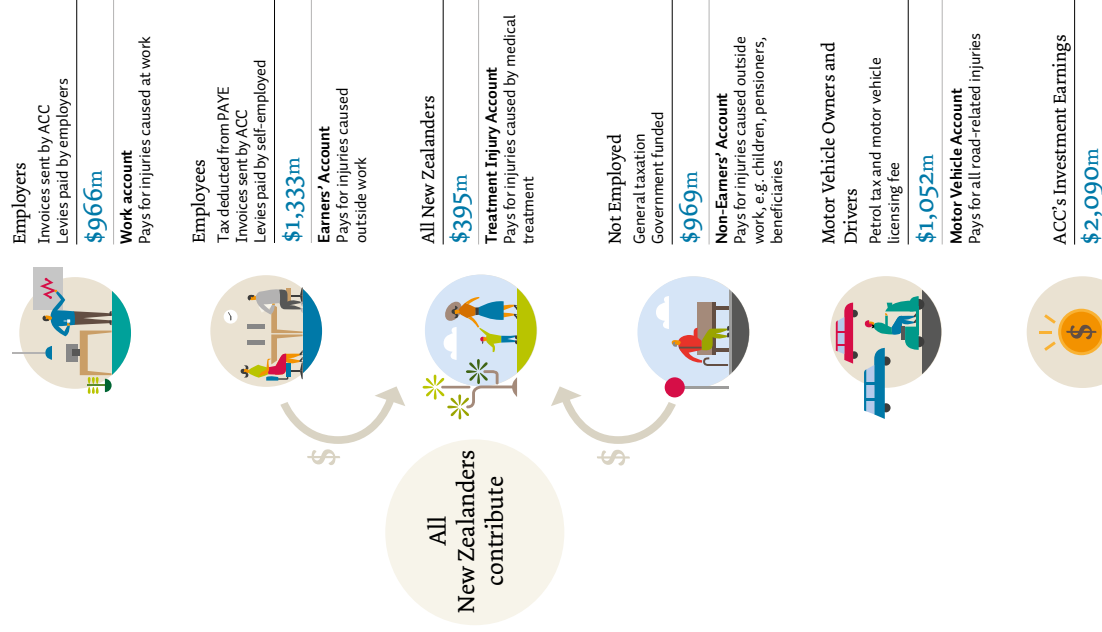
Annual Report 2013

Accident Compensation Corporation

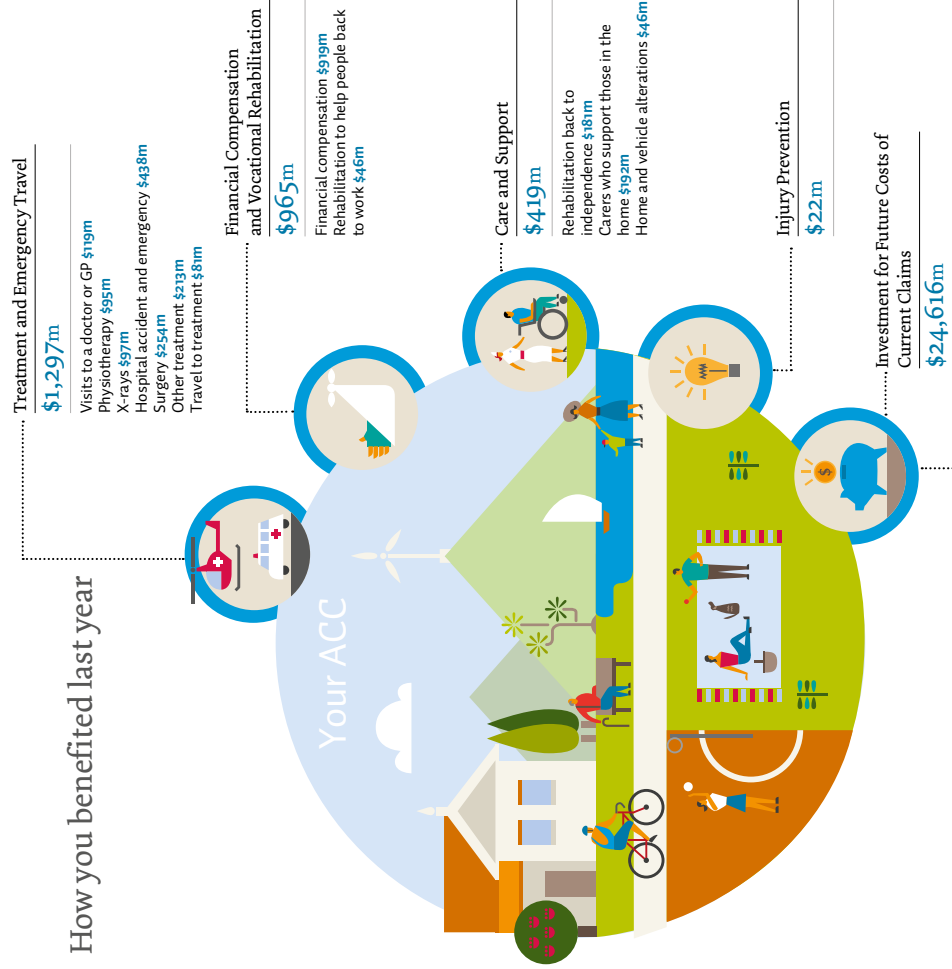


How the Scheme works for you

How you contributed last year



How you benefited last year



What everyone is covered for and entitled to is prescribed in the Accident Compensation Act 2001.

ACC's financial position at 30 June 2013

Assets and investments that ACC currently has (net assets excluding outstanding claims liability)	\$24,909m	—	\$27,162m	<p>The amount ACC needs to cover the cost of current claims (outstanding claims liability)</p>
			— \$2,253m	<p>The gap between what ACC has and what ACC needs (net liabilities)</p>

By 2019 ACC needs to close the gap so we have appropriate assets to pay our future liabilities.

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Introduction

From the Minister for ACC

New Zealand's Accident Compensation Corporation (ACC) runs a system that is the envy of many countries.

Many New Zealanders cannot remember a time when the Accident Compensation Scheme did not exist - today it is largely taken for granted. Much of ACC's activities take place out of the spotlight with people unaware their treatment has been funded or even that their income has been replaced as a result of support from the scheme.

We must retain the institutional memory of life before ACC so we fully appreciate the value it delivers to everyday life in New Zealand. Prior to 1974, before ACC levies were introduced, individuals and businesses operating in New Zealand faced significant risk. The cost of insurance and the costs associated with being sued were high on the list of worries for every business owner. A person's right to sue may have been worthless if they couldn't afford to take legal action – likewise if the costs outweighed the likely award of damages or if the guilty party was not worth suing.

As Minister, it's my responsibility to ensure the Corporation is held to account and is as efficient and effective as it can be for delivering cover to injured people and value to levy payers.

2013 has been another successful year for ACC and injured people are getting back to independence more quickly. Returning to independence, where possible, including returning to work, is important for each individual as well as their families and communities. I have been moved by the recovery stories from individuals I have met this year who have risen to challenges presented as a result of their injuries. I admire their capacity to meet adversity and fear with courage, commitment and strength, even though the impact on their lives is often devastating on them, their families and friends.

Public trust and confidence in ACC has improved but there is still plenty of work to be done. ACC has also shown its commitment to improving the protection and security of New Zealanders' personal information and it's important this commitment continues.

The Corporation has achieved exceptional investment returns, beating its market benchmark again this year. As a result ACC's financial results have been strong and solvency across all accounts has improved.

Injury prevention is one of ACC's primary responsibilities and I know ACC takes this responsibility seriously. Preventing an injury, rather than repairing the effects afterwards, is better for everyone. Injury prevention is not just about being seen to be doing something, it is about being effective. ACC will rigorously examine the effect of all its injury prevention programmes to ensure they continue to achieve the best possible outcomes.



I appreciate the results delivered by ACC reflect the hard work of ACC staff and also those providing services to the Corporation. ACC pays for services across the entire range of health care providers including GPs, medical specialists, audiologists, radiologists, ambulances, nurses, pharmacists, dentists, physiotherapists, attendant carers, chiropractors, acupuncturists, home helpers and counsellors as well as funding the hospital treatment of injuries.

ACC also funds injury prevention programmes like the DrinkSmart app and many sports safety programmes. If you see a safety or injury prevention programme, there is a good chance that ACC is helping with it.

I thank and acknowledge the ACC Board for its assistance, especially the Chair, Paula Rebstock. I am delighted with the progress the new Chief Executive, Scott Pickering, has made since his arrival earlier this year.

This year I have been fortunate to meet many ACC staff as I visit ACC offices across New Zealand and I have been hugely impressed by their commitment to clients. ACC staff are champions for injury prevention and they are champions for the injured. Whether they are working directly with clients, in the field of injury prevention, on policy or in finance, the ACC team makes a significant difference to the lives of New Zealanders.



Hon Judith Collins
Minister for ACC

From the Board Chair

In the past year ACC has dedicated itself to solving the issues around privacy. The way we protect client information has been the key priority for the organisation as we've worked hard to address the recommendations made in the 'Independent Review of ACC Privacy and Security of Information'. The result is that staff now treat all client information with care, as if it were their own.

In addition, we've developed a number of other initiatives that address some of the root causes of privacy breaches. We've made privacy the responsibility of a Chief Privacy Officer who is a member of the Executive Management Team, we've revamped the Privacy Team and we've promoted breach prevention techniques throughout the business. Breaches continue to trend down.

Our strong rehabilitation performance is reflected in the fact that more people are returning to independence within nine months than ever previously recorded. This, combined with outstanding results from an investment team that has outperformed the market benchmark for the 18th successive year, has provided the platform for considerable reinvestment in the business.

One of the areas for reinvestment is injury prevention. The Board is determined that prevention should regain its place in the Corporation's priorities. Effective prevention initiatives will reduce long-term costs, not only for ACC but for other agencies providing responses to the consequences of injuries.

Beating our solvency targets this year means we're well on track to meet the target of being fully funded by 2019. The Government has signalled the possibility of a reduction in levies as a result, which demonstrates confidence in our financial management. The sooner we can get to full funding, the better it will be for all New Zealanders so that the Scheme is sustainable and affordable for everyone.

With a new Board in place, it has been a period to revisit the strategic direction of the Corporation. I would like to acknowledge my colleagues for their support: Trevor Janes, Deputy Chair, Professor Des Gorman, Kristy McDonald QC, John Meehan, James Miller and Jill Spooner.

We were delighted with the arrival of Scott Pickering as the Chief Executive. His background in the insurance industry means he is qualified to lead ACC towards a desired business model, adopting a more customer-focused approach to managing our business and putting clients at the heart of everything we do.

The dedication of our staff throughout the past year has been incredibly heartening. ACC is full of talented and committed individuals with a sense of duty to help New Zealand.

The Board, supported by the Chief Executive and staff, is committed to building an ACC that meets the expectations of New Zealanders and is held in high regard, in terms of public trust and confidence.



A handwritten signature in blue ink that reads "Paula Rebstock".

Paula Rebstock
ACC Chair

From the Chief Executive

This year was one of the most challenging in the organisation's history. It was a defining period and we now have a clear view of what we need to do in order to serve New Zealand well: we need to be financially stable without losing sight of what's best for our clients.

We have strong foundations to build on. This year our finances were probably in the best shape ever and we maintained the rates at which injured people return to independence. This is important because a faster return to independence has been proven to have significant benefits for an individual's overall health and wellbeing.

While our performance indicators are generally moving in the right direction, our key customer-focused measures didn't shift in the year.

Rebuilding trust and confidence will take time and requires a sustained effort on our part to prove that change is occurring. I'm committed to creating an organisation that enables us to deliver the best possible service to New Zealanders. We have a number of initiatives already underway to help us achieve this goal.



Customer focus

Our customers must be at the front and centre of what we do.

To help us with this, we've restructured our formal 'Voice of the Customer' consultation groups to provide us with more representative insights into what our customers may be thinking. We are focused on listening to the feedback received through these groups and using them to test products and ideas that we hope will change the way our services are delivered. This dialogue is vital if we're going to meet our key measures.

Injury prevention

Our ability to prevent injuries occurring in the first place will have positive impacts that go beyond the physical effect on the individual.

This year we saw the Idea Nation project generate five incredibly creative injury prevention ideas that are now being readied for pilot implementation. We also co-hosted the World Safety Conference 2012 which enabled us to showcase some of our key injury prevention initiatives on a world stage.

We're probably proudest of our RugbySmart injury prevention initiative, which resulted in an entire season without any serious spinal or neck injuries being recorded.

We know that most injuries are preventable. We took the opportunity to review our Injury Prevention Strategy to identify further opportunities to focus on the activities and drivers that contribute most to injuries occurring. As a result, we created several new areas of focus for our injury prevention activities, and to help us achieve our goals in these areas, we are doubling our spend on injury prevention activities in the 2013/14 financial year.

People and capability

Our people are our best asset. They proved to be resilient and committed throughout the testing times this year. Our staff are dedicated to helping their fellow citizens and want to make a difference in injury prevention, care and recovery.

During the course of the year we started a programme that supports our staff to deliver the world-class service that New Zealanders expect. Our focus is on investing in our people, providing training and development opportunities, creating a culture that embraces the customer, and creating an environment that attracts and retains talented and high-performing people.

Technology focus

To enable us to become truly customer centric, we have to ensure that our systems and processes support our people to make informed decisions. As we develop future operating models, we are looking at technology solutions to help make our processes more customer centric.

We need to make sure that customers are able to engage with us in the way they would prefer. An increasingly large majority of New Zealanders are digitally savvy. So with this in mind, we are developing a strategy to move us into the digital environment with the aim of providing a digital option for every customer who wants to interact with us in this way.

Our aim

I'm passionate about the work that ACC does for all New Zealanders. We provide a unique service as there is nothing else out there like ACC, and as a returning Kiwi I'm even more conscious of the value we offer, when we get the delivery right.



Scott Pickering
Chief Executive

Our role and strategic direction

The Accident Compensation Corporation (ACC) is the Crown entity set up under the Accident Compensation Act 2001 (the AC Act) to deliver New Zealand's accident insurance scheme (the Scheme).

The purpose of the Scheme is to deliver no-fault personal injury cover for everyone in New Zealand, including overseas visitors. Under the Scheme individuals forego the right to sue for compensatory damages following injury, in return for receiving personal injury cover.

Our vision is to be leading the world in injury prevention, care and recovery.

ACC touches the lives of a large number of New Zealanders: the health and rehabilitation professionals who provide services to the injured, the businesses, vehicle owners and workers who contribute to the Scheme, and of course those who are injured.

Our role is to ensure that all these groups' needs are met; ultimately ensuring that our clients get the right care at the right time, while keeping levies fair and stable.

ACC's Statement of Intent sets out the outcomes and measures on which we must report at the end of each year.

Our outcomes for 2012–2015 were:

- reduce the incidence and severity of injury where it is cost effective to do so
- rehabilitate injured people in New Zealand more effectively
- deliver levy stability by achieving long-term financial sustainability.

Our strategic direction reflects the Government's current priorities for ACC as well as how we contribute to the long-term Government outcomes for New Zealand.

Our performance this year

Excellent rehabilitation rates

We continue to report strong rehabilitation rates, which means that people with injuries are returning to independence more quickly than they would have in the past. More people now return to independence within 273 days than at any point since we started reporting our rehabilitation rates. Benchmarking has confirmed that the percentage of workers who return to work and are still at work nine months later has exceeded the average across Australian workers' compensation schemes.

Renewed focus on injury prevention

Our Injury Prevention Strategy was last reviewed in 2007. While we have achieved good results with a number of our programmes, the level of investment in injury prevention has declined in recent years. Our focus this year was to revisit and refresh our Injury Prevention Strategy. Although the new strategy brings a change of focus, we will continue those programmes that have demonstrated good results in the past.

Laying the foundations for improved customer service

Customer satisfaction results have declined since last year and our result for the year is below target by 4%. Although the measure of trust and confidence that the public has in ACC has stabilised since this time last year, the results are still far from where we want them to be.

This year we started to lay the foundations that will enable our customers to access the services to which they are entitled more easily than they have in the past. We are listening to the concerns of our customers and we are committed to redesigning our services so that the customer is placed at the centre of what we do. Our pilot trialling the key aspects of ACC's new client service model in Christchurch indicated high levels of customer satisfaction. This model will be rolled out across ACC in 2013/14.

Privacy breaches reducing but more to do

In August 2012 the ACC Board received the 'Independent Review of ACC Privacy and Security of Information' (Privacy Review).¹ The Privacy Review brought to light growing concerns with our ability to manage the personal information we hold on behalf of our clients and levy payers.

In response a change programme was put in place this year to deliver the recommendations of the Privacy Review. Since last year, we have made significant progress in reducing privacy breaches. However, we are still making too many. Our goal is to achieve zero privacy breaches.

Well on the road to achieving long-term financial sustainability

Through a consistent focus on the rehabilitation of clients, prudent cost management and exceptional investment performance, our financial position has been significantly improved. The gap between our assets and liabilities is closing, with Scheme solvency improving to a point where full funding² of the residual portions of the levied Accounts may be achieved ahead of the 2019 target.

¹ <http://www.acc.co.nz/news/WPC113544>.

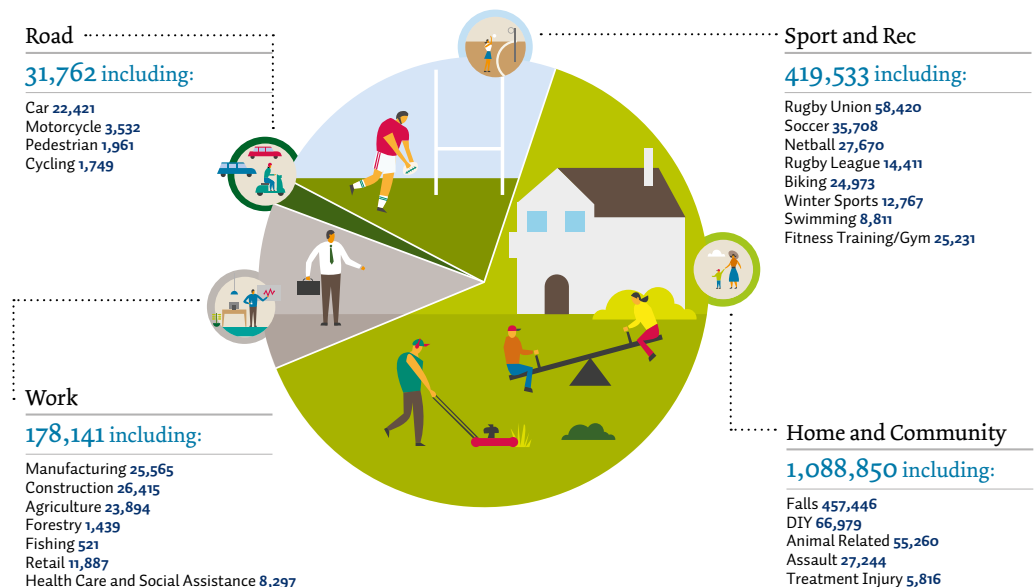
² Under the AC Act, ACC is required to be fully funded for all pre-1999 injuries by 2019.

Reduce the incidence and severity of injury

Injuries are a serious and costly issue in New Zealand. Around 1,800 people die each year from injuries, and 8,000 receive serious, life-threatening injuries. The impacts of injury go beyond the individuals' pain, loss of earnings and reduced quality of life, to their families, their employers, our health care system, and our communities.

What we know is that injuries can occur anywhere and most are preventable.

All new claims (Lodged in 2012/13) 1,718,286



We can help to avoid injuries by investing in safer systems and by encouraging individuals, businesses, families and communities to take specific actions to reduce the risk of injury to themselves and to others.

Our focus:

Leading and working with our partners to deliver more effective injury prevention programmes that help keep New Zealanders safe



Injury reduction programmes working

- A 3.7% reduction in claims among employers participating in injury reduction programmes.

Competition generates innovative ideas

- Five concepts from Idea Nation are scheduled to be piloted in 2013/14.

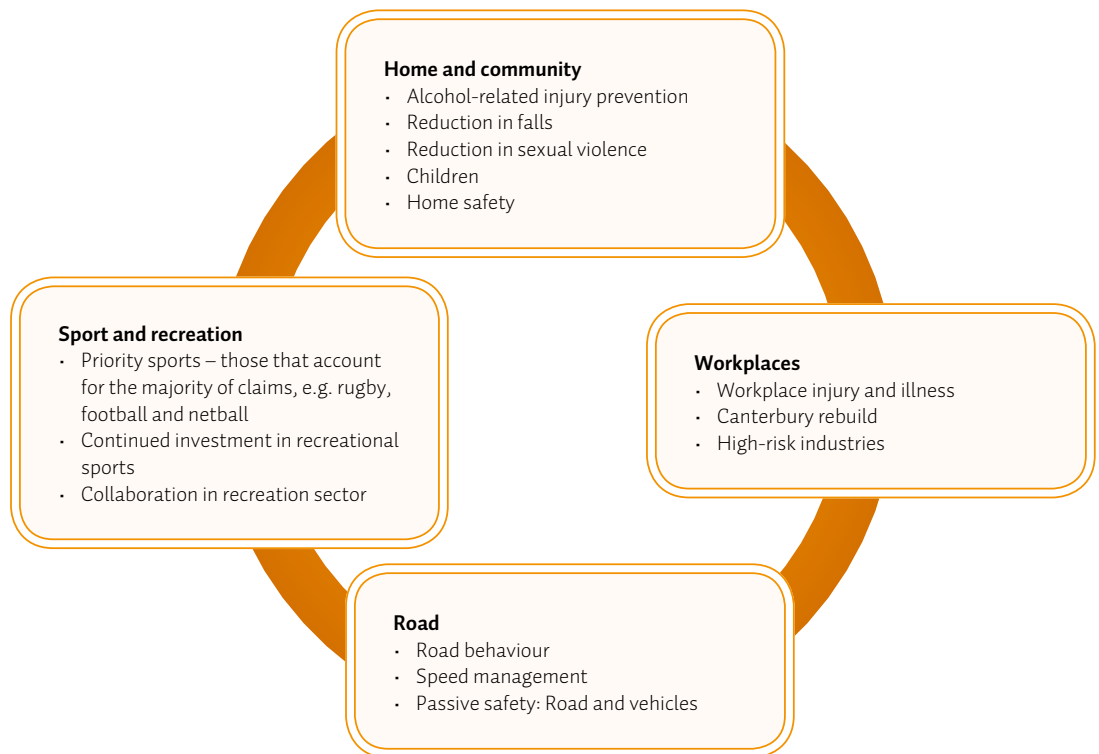
Revisiting our Injury Prevention Strategy

This year we revisited our Injury Prevention Strategy and identified the opportunity to broaden our injury prevention activities so that they more closely align with where most injuries occur.

Our revised approach recognises the need to address the social drivers of injury, in particular alcohol use, as well as certain low-frequency but higher-cost areas of injury (for example sexual violence and treatment injury). We will develop and trial interventions in less proven areas, as well as continue with mature programmes that are already performing well.

Within each of the environments where injuries occur (i.e. home and the community, sport and recreation, work, and road) we have identified specific areas of focus. With a significantly increased investment in injury prevention programmes, we will commence delivery on our injury prevention initiatives in 2013/14.

Our Injury Prevention Strategy areas of focus include:



Collaborating for success

Injury prevention works best when all relevant stakeholders work together – we rely on our partnerships with government and community agencies to help prevent injuries. During 2012/13 we continued to work with a large variety of organisations, as shown in our injury prevention highlights.

We have an integral role to play in helping New Zealand businesses meet the Government's objective of reducing serious injuries and deaths in the workplace by 25% by 2020. As well as maintaining our already strong relationships with employers and industries around New Zealand, we will be working with WorkSafe New Zealand (the new health and safety agency) in the coming year.

Community injury prevention – improving water safety for the Pacific community

Māori and Pacific people are over-represented in drowning statistics, and this year we were the lead government agency responsible for drowning prevention.

We worked with MetService and Pacific radio stations to improve the quality of weather forecasts for both Pacific fishers and the wider community. We also worked with Maritime New Zealand and Coastguard New Zealand to make the Coastguard Day Skipper course more accessible to Pacific fishers.

“What I have found personally is that it has changed the way I prepare myself, my crew, the boat and accessories and especially the safety equipment.”

Day Skipper, Auckland



Working with employers to lift performance

Experience rating is a system of modifying employers' work levies based on their previous three years of claim history. A business with worse-than-average claim numbers when compared with businesses in its peer group will pay more (a loading). Better-than-average claim numbers enable a business to pay less (a discount).

We engage with companies that receive loadings of more than 15% in an effort to reduce workplace injuries, and to help them reduce their loadings.

We know that this works. On average, employers that engage in our mitigation programme achieve a 36% reduction in the number of claims and a 72% reduction in the average claim duration when compared with the 24 months before we engaged with them.

“We employ 480 staff, made up of 25 nationalities; half speak only a little English. When we received the 16% experience rating loading, we knew that a tailored approach was needed. ACC provided the right tools to address our workforce so that we can ensure the health and safety of our staff is paramount. Working with ACC has added considerable value to our organisation and assisted in a re-focus that we sincerely believe will see a reduction in injuries.”

Human Resources Business Manager, Meadow Mushrooms Limited

“Whilst we have achieved excellent results from a number of our injury prevention activities in the past, we must continue to ensure that our activities demonstrate a return on investment. I’m excited about our new Injury Prevention Strategy and with increased investment in 2013/14 we will be broadening the focus of our interventions to target those areas where injuries most commonly occur.”

John Beaglehole, General Manager Insurance and Prevention Services

Injury prevention highlights for 2012/13

Practice



11% reduction in injuries for 16 to 19 year olds involved in motor crashes

- Sadly, New Zealanders aged 16 to 19 stand high in crash statistics, and are around seven times more likely to be involved in crashes than people in their late 40s. To help get these figures down, ACC and the NZ Transport Agency (NZTA) developed the free 'Practice' programme in 2003, which encourages sustained supervised driving practice for 16- to 19-year-olds.
- The Practice campaign to attract newly licensed learners in 2011/12 won the gold award at the 2012 NZ Direct Marketing Awards. This year the number of young drivers using the www.practice.co.nz website increased by over 50%.
- There was an 11% decline in injuries for 16-to 19-year-olds involved in motor crashes. However, we didn't see the expected decline in injuries for people aged 20 to 24 this year.
- In response, alongside NZTA, we are redesigning the Practice programme to increase uptake in the target audience and to incorporate the latest research findings in the area of educating and coaching young people.

Alcohol injury prevention programme



Preliminary results suggest approximately 12% of ACC claims are alcohol attributable

- We supported the 'Mellow Yellow' programme that encouraged collaboration between hotels and bars to reduce alcohol-related harm. This included creating a highly visible and strong security presence by providing high-visibility jackets for door staff, Māori Wardens and Police. In Palmerston North there was a reduction in alcohol-related incidents in the central business district.
- We funded the 'Stick with the Pack' application. This mobile app allows friends who sign in to keep in touch with where they are, signal if they need help, and access helpful numbers easily for getting home safely.
- Alcohol screening and referrals to treatment services at Wellington Emergency Department were introduced in August 2012. Of those who were screened, 62% were referred for further assessments and potential treatment. The trial has been extended for one more year and expanded to Hutt Valley Emergency Department.

RugbySmart



RugbySmart – zero serious neck or spinal injuries during the 2012 rugby season

- RugbySmart was developed jointly by New Zealand Rugby and ACC. It's about lifting team performance by ensuring players are physically and technically at their peak before they go on the field.
- All Black Conrad Smith was the face of RugbySmart in 2012/13, presenting injury prevention material on a coach education DVD and featuring on RugbySmart posters.
- The RugbySmart iPhone application was released this year, providing all of the essential RugbySmart material in a convenient format and allowing coaches to log incidents such as concussion in real time, make assessments and refer on for further medical attention if necessary.
- Since the inception of RugbySmart in 2002, serious neck and spinal injuries have reduced significantly from double digits each year to zero in the 2012 rugby season. More information can be found at www.rugbysmart.co.nz.

Health and safety in the workplace



Employer forums reach more than 4,500 employers each year

- Our role is to work with New Zealand businesses and agencies to provide resources to help prevent injuries both in and out of the workplace.
- We are heavily involved in the Canterbury rebuild, recently signing the Canterbury Rebuild Safety Charter.
- We are hosting 'toolbox talks' on worksite safety and asbestos on a regular basis to approximately 400 people per month in Canterbury.
- We are the principal sponsor of the Workplace Health and Safety Award, one of 27 categories of the New Zealand Business Excellence Awards. This award recognises excellence in workplace health and safety among employers around the country.
- We engage with employers nationwide to deliver forums for their employees who have influence over health and safety, annually reaching more than 4,500 employers.

Rehabilitate injured people in New Zealand

Delivering high-quality services to clients and businesses is critical to the Scheme's success, as financial sustainability can only be achieved through the provision of quality outcomes for our clients.

Research confirms that when people make a rapid return to independence after injury, their overall health and wellbeing is significantly improved and the adverse social and economic impacts of their injuries on their families, communities and New Zealand are greatly reduced.

We aim to ensure that people with injuries covered by the Scheme get the rehabilitation they need to return to as full a role in society as quickly as possible. To do this, we need to put our clients at the heart of everything we do.

In 2012/13:

ACC accepted
1.7 million
new claims

These claims were
looked after by
1,876 staff

More than **933,000** clients
visited their GPs



More than **85,000** clients
received rehabilitation services.
Of these, more than **4,300** were
serious injury clients



More than **33,000** clients
had surgery



More than **425,000** clients
received physiotherapy



More than **76,000** clients
received weekly compensation

ACC approved

5,805 shoulder surgeries
11,081 knee surgeries



Our focus:

To put our clients at the heart of everything we do. That means listening to and responding to their needs, treating them fairly and providing the highest standards of service and advice. We are committed to achieving this.



Faster and more durable return to independence

- 78% of workers returned to independence within 12 weeks.
- 94% of clients returned to independence within 273 days.

Client satisfaction

- Overall client satisfaction was 68% this year.

Long-term clients supported

- 2,470 people receiving long-term ACC assistance returned to independence this year.
- 69% of seriously injured clients attained or exceeded their self-directed goals.

Maintaining strong rehabilitation rates

We continue to report strong rehabilitation rates, which mean that people with injuries are returning to independence more quickly than they would have in the past. Benchmarking has confirmed that the percentage of workers who return to work and are still at work nine months later has exceeded the Australian average.

“We’re focusing on improving the quality of the services we deliver by addressing the key interactions that our customers experience on the road from injury to recovery or independence.”

Sid Miller, General Manager Claims Management

Putting our clients at the centre of what we do

From the time of injury through to recovery or independence it's our job to make sure clients receive a quality service. Although our rehabilitation performance remains strong, client satisfaction survey results are not where we would like them to be.

We are in the process of making changes to address this. These changes will take time to embed, and improving the way we provide services to our customers will continue to be our focus for 2013/14 and beyond. This year we put in place the foundations that will enable us to provide better services and decision-making. These include:

- **trialling our new client service model:** We work with our clients to ensure the earliest possible intervention and we are redesigning our services to ensure this occurs. This year we ran a pilot trialling the key aspects of our client service model in Christchurch. Feedback from the pilot indicated high levels of client satisfaction and this model will be rolled out across the network in 2013/14
- **strengthening the Voice of the Customer advisory and representative groups:** These groups consult ACC on behalf of New Zealanders. The strategy, structure and membership have been strengthened to provide a wider reach and coverage so that we obtain more representative insights into what our customers may be thinking. We are focused on listening to the feedback received through these groups and we use them to test products and ideas that change the way our services are delivered
- **implementing self-directed goals for seriously injured clients:** We extended person-centred planning for our seriously injured clients, putting in place individual self-directed goals to support them to participate in the economic, social and civic lives of their communities. Next year we will be piloting self-managed claims for seriously injured clients. Self-management gives clients with serious injuries control over how they get the support they need for everyday living

Supporting clients' return to independence

After breaking her leg and badly injuring her ankle after falling on wet steps, Wendy* was reassured that her dignity would be preserved after her Case Coordinator, Sue, promptly arranged for someone to help out around the house. This allowed her to concentrate on her next goal of making a partial return to work.

Wendy's employer was very supportive of her returning to work while recovering, so Sue worked with them both to ensure that any return to the workplace would be safe and sustainable. Transport was an issue for Wendy, who usually drove as part of her role. Sue and the employer worked together to ensure alternative arrangements were in place to cover this aspect of Wendy's job. ACC also funded taxis to work and treatment. With an agreed plan in place, Sue and Wendy kept in regular telephone and email contact. They celebrated the milestones, such as when Wendy progressed from a wheelchair to crutches. Six weeks after her accident Wendy made a full return to work.

"Sue provided tremendous personal support that enabled me to return to work after two weeks off.

Nothing was too much trouble to Sue. She is exactly the right cross between the total professional and an understanding human being. I found her service to be exceptional. She is a real solution finder. I am now fully recovered and leading a full and active life again thanks to Sue's support."

*Name has been changed

- **improving the way we work with Māori:** We are progressing work to improve our responsiveness to Māori so that we engage effectively with the indigenous population, earn the trust and confidence of all New Zealanders and drive real improvements that enable us to fulfil our responsibilities under the Crown-Māori partnership. Improvements are focused on the quality of outcomes and experience for Māori (e.g. serious injury employment participation), injury prevention effectiveness (starting with motor vehicle injuries) and improving our culture and capabilities in relation to engagement with Māori
- **making return-to-work assistance easier:** At the beginning of our clients' journeys, we focused on helping providers to work with clients so that they could get back to work as quickly and safely as possible through better certification practices. This included improvements to the online certification forms that enable GPs to notify ACC when return-to-work assistance is needed.

Improving services to businesses

Large employers can play an active role in helping to ensure better outcomes for people who are injured. This year we completed the roll-out of our Employer Centric Service, which provides a select group of larger employers with dedicated ACC Case Managers, who proactively manage all the injury claims relating to their employees. It means that managers only deal with one ACC staff member for any injured employees, regardless of where they are in the country. The aim is to achieve a more coordinated and responsive approach to returning employees to work, safely and quickly.

Because the Case Managers understand the businesses well, they are able to make better judgements around employees' rehabilitation needs and they understand what other types of duties might be available to employees who are not fully fit but who want to return to work.

*"Having a dedicated ACC Case Manager has provided us with the confidence that all staff receive the same level of support from someone who is gradually getting to know the nature of our business. It has also helped me to have someone to consult with and verify whether there is more that our business can/should be doing."**

*"It is more of a partnership with ACC now. Our relationship manager understands our business and knows that we are committed to returning staff to work safely and is able to help us with this in a far more timely fashion."**

*Anonymous submissions collated as part of the evaluation of the Employer Centric Service

Our focus:

Ensure the protection of personal information held by ACC by continuing to implement the recent Privacy Review recommendations. This will support our goal of zero acceptance of privacy breaches, which in turn should help to improve the trust and confidence that New Zealanders have in the Scheme.



The public has trust and confidence in what we do

- Trust and confidence in ACC is at 47%.

Personal information is protected

- A rolling three-month average of 36 privacy breaches a month by the end of 2012/13, down from 68 in June 2012.
- The Management of Personal Information Index end-of-year result was 80.1 (target 80).

We deal with confidential and sensitive information for a large number of people and entities, including clients, customers, suppliers and employers. Every month we send and receive over one million emails.

The type of information that we hold, such as health and financial information, is the most private kind. It is imperative that a 'zero acceptance of privacy breaches' is a foundation element of our culture and privacy is a paramount consideration.

The Privacy Review in August 2012 was pivotal in our history and it highlighted significant concerns with how we manage the personal information we hold on behalf of our clients and levy payers.

We must recover the public's trust and confidence. It will take time and sustained effort to demonstrate that we have learnt from the past. We are not there yet but the steps taken this year are beginning to make a difference. We are committed to making the protection and security of personal information an integral part of our day-to-day activities and organisational culture.

Our response to the recommendations

The Privacy Review raised 44 recommendations in total, 22 short term and 22 long term; all were accepted by ACC. We created a change programme to address these and this programme went beyond the scope of the recommendations and looked at how to address wider systemic issues.

Processes and systems are being reviewed and will be changed where necessary to ensure we can deliver the step change required in how we manage information.

By the end of June 2013 we had successfully implemented 15 of the short-term recommendations, with the remaining seven to be implemented by December 2013.

Our actions this year included:

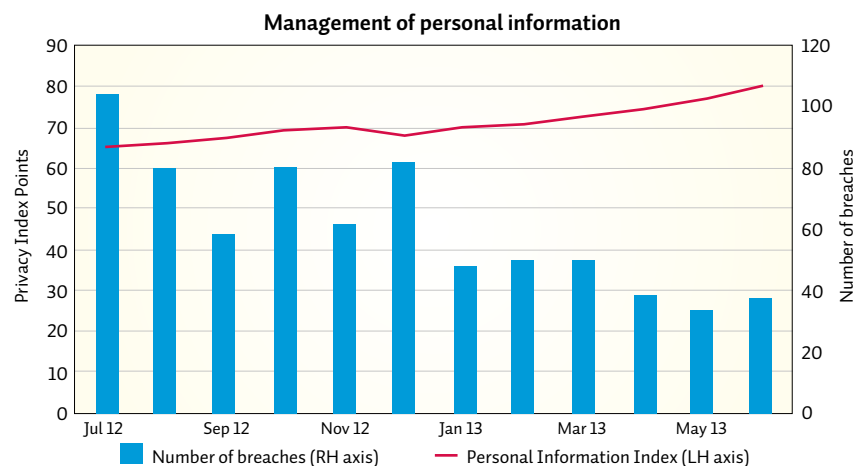
- establishing a team to check the documentation within claim files being copied for clients. The team checked more than 1.5 million pieces of personal information by the end of June 2013
- creating a Privacy Team to become our Centre of Excellence for privacy issues
- publicly reporting our breach numbers on a monthly basis
- establishing a taskforce that included key decision-makers from across the organisation, to implement changes that had an immediate impact on privacy breach numbers.

The remaining 22 recommendations will take longer to implement and will form part of our change programme. We are committed to making sure we make these changes sustainable and future focused.

Measuring our performance

We developed key performance measures so that we can determine whether the changes and improvements made are having an impact on our information security and management.

During the year we monitored our performance against the Management of Personal Information Index. This measures whether our actions are having the intended impacts and our score is independently verified by KPMG. We also monitor the number of privacy breaches each month.



While we made significant progress in reducing privacy breaches, there are still too many breaches occurring. Our long-term goal is to achieve zero privacy breaches each year.

“We understand our responsibility for ensuring that the personal information we hold is secure. We’ve made some good progress in this area in the past year but recognise much more needs to be done. We’ll be doing all we can to restore our clients’ trust and confidence in us.”

Phil Riley, Chief Privacy Officer and Change Director

Deliver levy stability by achieving long-term financial sustainability

Surplus for the year
\$4.9 billion

Investment funds
\$24.6 billion

Outstanding claims liability
\$27.2 billion

One of the Government’s priorities is that the Scheme is financially sustainable, is fair to current and future generations and remains affordable for New Zealanders. Effective financial management of the Scheme delivers certainty, stability and sustainability.

Surplus higher than budget

Overall we reported a higher-than-expected surplus for the year. This was a result of higher investment income, along with a significant reduction of \$1.2 billion in the outstanding claims liability. The reduction in the outstanding claims liability was due to our rehabilitation performance being better than the level of performance independently assumed by Pricewaterhouse Coopers (PwC) for 2012/13, and increases in interest rates during the year.

Investment performance better than expected

Our investment income was \$0.92 billion higher than budget. Increases in global equity markets contributed to this, and our team continued to outperform the market benchmarks.

Rehabilitation performance better than actuarial assumptions

We maintained our rehabilitation rates at the same levels as last year. The independent actuarial assumptions used to calculate the outstanding claims liability are long term assumptions. When we perform better than the actuarial assumptions used to estimate the outstanding claims liability, it means the liability reduces. The difference between our actual performance and the actuarial assumptions resulted in a \$1.1 billion reduction in the outstanding claims liability this year.

An explanation of the Outstanding Claims Liability

While most people require our support for very short periods, for others the seriousness of their injuries means they will need help for longer. For example, if an infant suffers a severe birth injury they may require support for the rest of their life. The outstanding claims liability is the amount we need to hold today to cover the future costs of all known injury claims.

For the purpose of calculating the outstanding claims liability, future claims costs are discounted back to their present value. The outstanding claims liability decreases when long term interest rates rise and increases when they fall. This is because changes in interest rates affect how much money needs to be set aside. For example, a claim may have a lifetime cost of \$30 million spread over 40 years. By putting aside an appropriate amount now, we expect this will be sufficient to meet the future costs of that claim (given the interest earned on that sum over time).

PwC provides an independent estimate of the outstanding claims liability. This estimate includes assumptions about our rehabilitation rates each year. If we perform better than the independent assumptions, this will lead to a reduction in the outstanding claims liability.

Changes to interest rates and discount rate methodology

- Our effective interest rate increased by 0.45%, resulting in a \$2.2 billion reduction in the outstanding claims liability.
- Changes to the Treasury's long-term discount rate methodology reduced the long-term interest rates used to calculate the outstanding claims liability. This resulted in a \$0.98 billion increase in the outstanding claims liability.

The reduction in our outstanding claims liability flows through our statement of comprehensive income.

Continued focus on our costs

We paid close attention to our operating costs, which were \$8 million below budget for the year, despite additional costs being incurred for our privacy change programme that hadn't been budgeted for. This was a \$3 million reduction from last year.

Well on the road to achieving long-term financial stability

The Scheme is managed through five Accounts, with each providing a specific type of cover. Each Account has a separate profit and loss statement and balance sheet, with different variables affecting performance. There can be no cross-subsidy from one Account to another.

The table below outlines each Account, the type of cover provided and its funding structure.

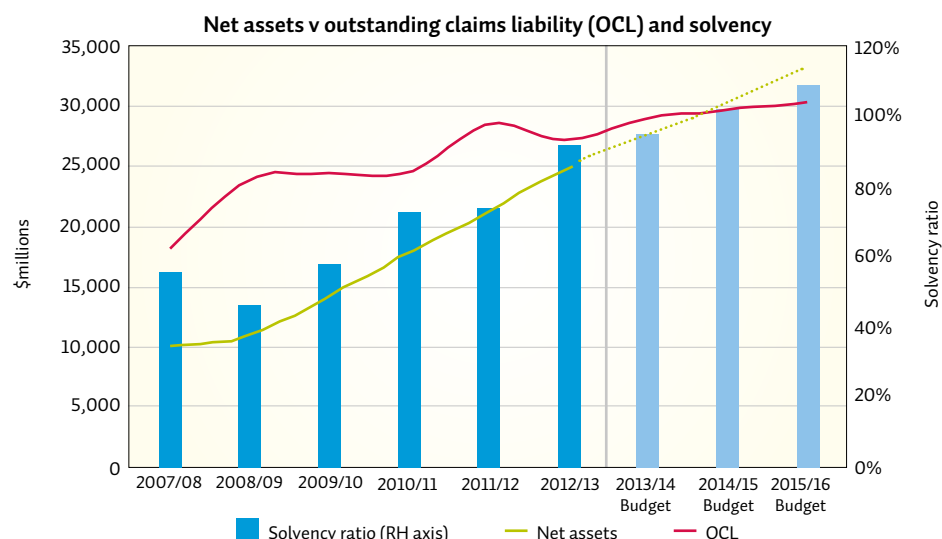
Account	Type of cover	Source of funding	2012/13 combined average levy (excl. GST)
Levied Accounts – revenue is collected through ACC levies			
Work	Work-related injuries	Employers Self-employed	\$1.15 per \$100 liable earnings
Earners'	Non-work-related injuries to earners, e.g. home, sport	Employees Self-employed	\$1.48 per \$100 liable earnings
Motor Vehicle	Injuries involving motor vehicles on public roads	Motorists	\$334.52 (average levy for petrol-driven car including petrol levy and licensing fee)
Non-levied Account – revenue is collected through Government appropriation			
Non-Earners'	Injuries to non-earners, e.g. students, elderly	Government appropriation	N/A
Mixed-funded Account – revenue is collected through ACC levies and Government appropriation			
Treatment Injury	Injuries caused by registered health providers	Earners' and Non-Earners' Accounts	N/A

Since 1999 (2001 for the Non-Earners' Account) levies have been collected on a fully funded basis. However, prior to this levies were collected on a pay-as-you-go basis, which means levies were sufficient only to cover the annual cost of injuries. The future costs of longer-term injuries were not funded and this gave rise to a significant unfunded claims liability.

The AC Act requires that those Accounts funded by levy collection, the Work, Motor Vehicle and Earners' Accounts, be fully funded by 2019. At June 2013, the Work and Earners' Accounts had achieved full funding.

The Non-Earners' Account is funded annually by a Government appropriation that fully funds all claims post 1 January 2001. However, this Account will not reach full funding until all pre-2001 claims that were funded on a pay-as-you-go basis reach maturity. As such, the Non-Earners' Account and the portion of the Treatment Injury Account funded by the Non-Earners' do not have a full funding target.

The gap between our assets and liabilities is closing, with Scheme solvency improving to the point where full funding of the residual portions of the levied Accounts will be achieved ahead of the 2019 target.



Funding policy

Cabinet has requested a review of the funding policy for all Accounts, which is being led by the Ministry of Business, Innovation and Employment, with support from ACC and is expected to be undertaken during 2013/14. ACC's future funding approach will be determined following this review.

Levies for the Work, Motor Vehicle and Earners' Accounts are assessed annually according to each Account's funding policy, which sets out that Account's targeted solvency level.

Solvency is measured as the net assets available to each Account as a percentage of that Account's claims liability. In setting levy rates, claims volumes and resulting costs, inflation and investment performance are forecast and levies are set with the aim of meeting our targeted solvency levels for the three levied Accounts.

Our strong financial performance in the past three years has enabled the Government to signal levy reductions for the next two financial years within the 2013 Budget. While any levy changes will be consulted on, this is a strong signal of confidence in the performance of the Scheme in the future.

"It's been another excellent year for our investment team. This, alongside our strong rehabilitation performance and tight cost management, puts us well on track to achieve full funding by 2019."

Mark Dossor, Chief Financial Officer

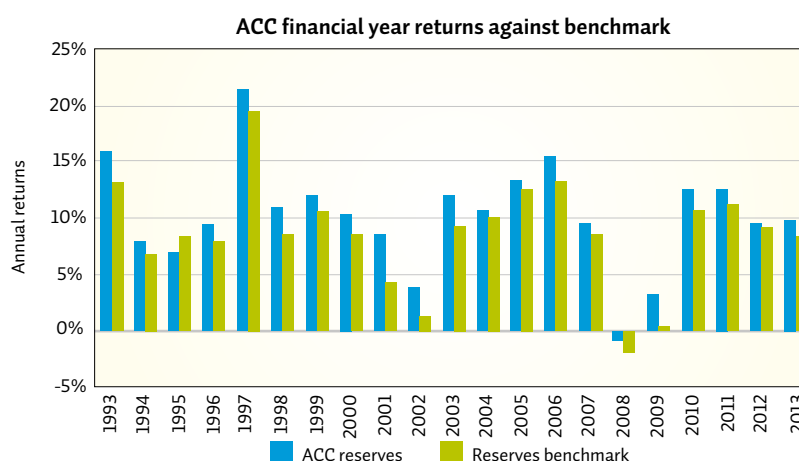
Investment performance report

Return on funds invested
9.89%

Outperformed market benchmarks by
1.49%

Our Reserves Portfolios achieved an aggregate return of 9.89% over the year, beating market benchmarks by 1.49%. This was a 1.37% outperformance on a pre-tax net-of-costs basis.

This was the 18th consecutive year that our Reserves Portfolios had beaten their market benchmarks. We are not aware of any other large diversified fund anywhere in the world that can match the consistency with which ACC has outperformed its benchmarks in this period.



The healthy investment return was pleasing in the context of the rises in New Zealand government bond yields that occurred towards the end of the year. We hold an investment portfolio that is designed to perform well when falling real interest rates cause upward revaluations to our claims liabilities. The flipside to this policy is that we would normally expect to see poor investment returns in years when rising interest rates reduce our claims liabilities. In 2013 we had the best of both worlds, enjoying both a decline in our claims liabilities (due in part to rises in long-term interest rates) and a healthy investment return (despite the impact of rising interest rates).

The biggest single contributor to the investment return of \$2.09 billion for the year was the strength of global equity markets. We had an average of about 37% of the reserves portfolios invested in equity markets. Developed country equity markets returned 22% in local currency terms during the year.

Our strong relative performance against benchmarks also made a healthy contribution to returns. This was mainly due to the strong performance of the New Zealand bond portfolios, where our returns benefited from a decline in the yield spreads between government bonds and non-government bonds. We also achieved outperformance in our global equity portfolios, and from currency positioning and asset allocation decisions.

A decline in the New Zealand dollar against the Euro and the US dollar also boosted investment performance during the year, as we hold a significant proportion of ACC's portfolios in unhedged United States and European investments, which increased in value due to the weakness of the New Zealand dollar.

Rises in New Zealand dollar bond yields took more than 2% away from our investment returns during the year. However, this loss is small relative to the reduction in claims liabilities due to higher market yields. Also, the rise in bond yields improves the outlook for investment returns in subsequent years, because it means that we are now earning a higher yield on the significant part of our portfolio that is invested in bonds.

Our overall investment return was probably lower than the returns that many other funds will have achieved in the same period. Because we are mindful of our claims liabilities when we allocate funds between investment markets, we typically have a lower proportion of our funds invested in equities and a higher allocation to long-duration bonds than most other funds, and this liability-aware allocation approach would have hurt our performance in comparison with other funds during the year.

A full report on ACC's investments can be found in Appendix 1.

Organisational culture, capability and capacity

Staff engagement

6.00:1

Target 5.22:1

High performers' turnover

7.3%

Target <10%

In order to provide high-quality services that help New Zealanders to prevent or recover from injury, we need to attract, retain and develop a high-quality, high-performing workforce.

There's no doubt that 2012/13 was a testing year for ACC on many fronts. Throughout the year, the resilience and commitment of our people shone through and our workforce remained highly engaged in our mission and purpose. But we have work to do if we are to maintain the goodwill of our people, develop our capability and build public trust and confidence.

In 2012/13 we began work to realign the foundations that support our people to deliver high-quality outcomes for New Zealanders. Our key focus areas were:

- capability – developing our frontline capability to deliver better service to customers
- culture – defining the culture shift needed to put customers at the heart of everything we do
- performance development and remuneration – ensuring staff know what is expected of them and get regular feedback about how they're doing, and rewards that reflect competency growth and great performance
- engagement – ensuring staff are engaged in their roles and the organisation
- health and safety – making a step-change to leadership of workplace health and safety practices.

Workforce profile and equal opportunities

Full-time equivalent: 2,864 permanent and temporary staff

Headcount: 2,967 permanent and temporary staff

ACC's permanent workforce profile as at 30 June 2013

Age profile	Average age 41 years.
Ethnic profile*	Ethnic diversity remains stable. Our staff profile is European (69%), Māori (8%), Asian (8%), Pasifika (4%) and other (11%).
Disability profile*	Our proportion of employees with a disability is 1.6% (permanent staff).
Gender profile	Women make up the majority of our workforce, with 68.5% female compared with 31.5% male.

* This information is voluntarily reported by staff.

We are committed to being an Equal Employment Opportunity (EEO) employer through our organisation-wide EEO good employer practices relating to the recruitment and selection, development, management and retention of all staff.

Activities this year

Our activities this year are summarised against the seven key elements of being a 'good employer' below.

Element	Our activity this year
Leadership, accountability and culture	<ul style="list-style-type: none"> Targeted leadership courses offered for future leaders, and new and experienced managers. Assessment of our organisational culture to determine how to develop a more customer-centred culture. Specific leadership workshops and coaching to support culture change were developed and piloted and will be rolled out in 2013/14.
Recruitment, induction and selection	<ul style="list-style-type: none"> Robust recruitment and selection processes are in place. Use of broad assessment and selection tools to encourage diversity of age, ethnicity, gender and disability.
Employee development and promotion	<ul style="list-style-type: none"> A new performance development and remuneration framework was developed and will be implemented in 2013/14. Comprehensive range of training programmes available to staff.
Flexibility and work design	<ul style="list-style-type: none"> Organisation-wide flexible working programme. Parent rooms in some locations.
Remuneration, recognition and conditions	<ul style="list-style-type: none"> Initiatives in place to recognise high performers. Transparent, equitable and gender-neutral job evaluation practices.
Harassment and bullying prevention	<ul style="list-style-type: none"> Employee Code of Conduct updated. All of our staff completed training on the updated Code of Conduct during the year.
Safe and healthy environment	<ul style="list-style-type: none"> Our commitment to providing staff with a safe workplace and supporting their wellbeing is delivered through a range of support services, including: <ul style="list-style-type: none"> Employee Assistance Programme professional supervision support programme ergonomic workstation assessments health and safety/WorkSAFE policy and training for all staff.

Governance and managing our risks

Corporate governance framework

The Board is the governing body of ACC, with the authority in ACC's name to exercise the powers and perform the functions of ACC. All decisions relating to the operation of ACC are made by or under the authority of the Board, in accordance with the AC Act and the Crown Entities Act 2004.

The Board sets and maintains clear policies that define the individual and collective responsibilities of management, the operating structure, lines of responsibility, and delegated authority. The Board delegates day-to-day management of the organisation to the Chief Executive.

With Board oversight, the Chief Executive is responsible for ensuring the achievement of business objectives, including risk management and ethical behaviour, and for ensuring that the internal control system is functioning effectively and efficiently.

Day-to-day operations are managed by senior managers led by the Chief Executive.

The current structure of the Board, Board sub-committees and management is shown below.



Board membership

The Minister for ACC appoints up to eight independent non-executive members to the Board of ACC. Board appointments are for three years, with the opportunity to be re-appointed for a further three years. The Board selects the membership of the three Board sub-committees.

ACC's Board



Board Members (left to right): John Meehan, Gillian Spooner, James Miller, Paula Rebstock (Chair), Trevor Janes (Deputy Chair), Kristy McDonald QC, Professor Des Gorman.

Full biographies of Board members and our Executive Management Team can be found at www.acc.co.nz/about-acc/overview-of-acc/key-people/index.htm

Disclosure of interests

The Board has a conflicts of interest process through which Board members are required to disclose their interests on a monthly basis.

Section 68(6) of the Crown Entities Act 2004 requires the Board to disclose any interest to which a permission relates in its annual report, together with a statement of who gave the permission and any conditions or amendments to, or revocation of, the permission. The table below sets out the details of the interest and permission granted.

Board member	Interest	Date of disclosure	Details of permission
Professor Des Gorman	Chair of the ACC Toxicology Panel	October 2012	The Cabinet Appointments and Honours Committee granted permission for Professor Des Gorman to continue to hold roles as both ACC Board member and Chair of the ACC Toxicology Panel.

Board and sub-committee attendance and fees

Board Members	ACC Board	Board Audit & Risk Committee	Board Investment Committee	Board Remuneration Committee	Board Member Remuneration Received
Ms Paula Rebstock ³	●●●●●●●●●●		●●●●●●●●	●●●	\$67,320
Mr Trevor Janes ⁴	●●●●●●●●		●●●●●●●	●	\$35,063
Prof Des Gorman ⁵	●●●●●●●●●●	●●●●●		●	\$28,050
Mr Murray Hilder ⁶	●				\$2,805
Ms Jane Huria ⁷	●●●●●	●	●●	●●	\$14,025
Ms Kristy McDonald QC ⁸	●●●●●●●●●●	●●●		●	\$28,050
Mr John Meehan ⁹	●●●●●●●●●●●●●●	●●●●●		●●●●	\$33,660
Mr James Miller ¹⁰	●●●●●		●●●●●		\$11,220
Ms Gillian Spooner	●●●●●●●●●●●●●●	●●●●●	●●●●●●●●●●		\$33,660
Mr Patrick Duignan ¹¹			●●●●●●●●●●		\$50,000
Mr Stephen Greenwood ¹²			●●●●●●●●●●●		\$50,000

● Attended ● Not attended

Remuneration

Remuneration for Board members is set in accordance with the rates set by the Government. The Remuneration Committee reviews the performance and remuneration of the Chief Executive and senior management.

Risk management framework

We operate an organisation-wide Enterprise Risk Management framework, which serves to coordinate the management of risk in achieving organisational objectives. A 'three lines of defence' approach incorporates interactive yet distinct lines of risk management responsibility.

The business has first-line responsibility for risk identification, assessment and management. The Risk Management Office has second-line responsibility for the support, guidance and coordination of risk management, and Assurance Services has third line responsibility for assessing the effectiveness of organisational risk management activities, and the function as a whole.

³ Appointed Interim Board Chair on 1 July 2012. Appointed Board Chair on 3 September 2012. Chair of the Board Remuneration Committee.

⁴ Appointed Deputy Board Chair on 3 September 2012. Chair of the Board Investment Committee.

⁵ Appointed to the Board on 3 September 2012.

⁶ Resigned from the Board on 30 July 2012.

⁷ Resigned from the Board on 30 November 2012.

⁸ Appointed to the Board on 3 September 2012.

⁹ Chair of the Board Audit & Risk Committee.

¹⁰ Appointed to the Board on 1 March 2013.

¹¹ External Member.

¹² External Member.

The Chief Executive and the Board Audit and Risk Committee monitor and evaluate the effectiveness of ACC's risk management and internal control system, informed by communication with Assurance Services and external auditors.

ACC's key risks and mitigations are described in Appendix 2.

Ethical responsibilities

This year we updated our employee Code of Conduct, which specifies business standards and ethical considerations, as well as the expectation that all employees will promote the principles of equal opportunities in employment. All of our staff completed training on the updated Code of Conduct during the year. This training module is mandatory for all new staff and a refresher for existing staff is being developed for the 2013/14 year. A Code of Proper Practice for Board members covers ethical issues.

Treaty of Waitangi

We recognise that the Treaty of Waitangi is a founding document of government in New Zealand, and established the country as a nation. We aim to support the Crown in its Treaty of Waitangi relationship, while delivering our services in ways that enable equitable outcomes for Māori.

Subsidiary companies

Shamrock Superannuation Limited (Shamrock), a wholly owned Crown entity subsidiary of ACC, was established in 1991 to act as the corporate trustee for the ACC Superannuation Scheme. Shamrock's role is to act in the interests of members by being an independent supervisor and custodian of the Scheme's assets. Shamrock is bound by the ACC Superannuation Scheme's Trust Deed.

Since 19 August 2010 Shamrock has been a registered financial service provider under the Financial Service Providers (Registration and Dispute Resolution) Act 2008.

Financial statements for the year ended 30 June 2013

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Consolidated statement of comprehensive income

For the year ended 30 June 2013

\$'000	Notes	Actual 2013	Actual 2012	Budget 2013
Net levy revenue		4,714,835	4,864,949	4,628,308
Other income	6	915	2,376	869
Total net levy and other income	4 & 7	4,715,750	4,867,325	4,629,177
Investment income	7	2,090,440	1,711,486	1,168,726
Less investment costs		60,740	53,959	51,498
Net investment income	5	2,029,700	1,657,527	1,117,228
Claims paid		2,639,167	2,603,009	2,777,317
(Decrease) increase in outstanding claims liability	27	(1,234,144)	3,885,960	1,102,811
Movement in unexpired risk liability	26	(26,515)	68,592	61,215
Total claims costs		1,378,508	6,557,561	3,941,343
Injury prevention costs		22,391	22,971	19,970
Operating costs		415,356	418,117	423,503
Surplus (deficit) before tax		4,929,195	(473,797)	1,361,589
Income tax (credit) expense	10	–	(17)	–
Net surplus (deficit) after tax		4,929,195	(473,780)	1,361,589
Other comprehensive income				
Revaluation (loss) on land and buildings		(21)	(2,057)	–
Other comprehensive income net of tax		(21)	(2,057)	–
Total comprehensive income for the year		4,929,174	(475,837)	1,361,589

Consolidated statement of changes in reserves (equity)

For the year ended 30 June 2013

\$000	Notes	Actual Total	Actual Motor Vehicle Account	Actual Non- Earnings' Account	Actual Earnings' Account	Actual Work Account	Actual Treatment Injury Account	Budget Total
Total Account reserves								
Balance at the beginning of the year (deficit)		(7,185,421)	(2,618,256)	(3,369,021)	339,118	28,343	(1,565,605)	(6,273,479)
Net surplus for the year		4,929,195	1,633,779	430,550	1,004,726	1,407,426	452,714	1,361,589
Other comprehensive income		–	–	–	–	–	–	–
Total comprehensive income for the year		4,929,195	1,633,779	430,550	1,004,726	1,407,426	452,714	1,361,589
Transfer from revaluation reserve		2,763	276	169	403	1,887	28	–
Balance at the end of the year (deficit)		(2,253,463)	(984,201)	(2,938,302)	1,344,247	1,437,656	(1,112,863)	(4,911,890)
Revaluation reserves								
Balance at the beginning of the year		3,085	–	–	–	–	–	5,142
Net surplus for the year		–	–	–	–	–	–	–
Other comprehensive income	29	(21)	–	–	–	–	–	–
Total comprehensive income for the year		(21)	–	–	–	–	–	–
Transfer to Account reserves		(2,763)	–	–	–	–	–	–
Balance at the end of the year		301	–	–	–	–	–	5,142
Total reserves								
Balance at the beginning of the year (deficit)		(7,182,336)	(2,618,256)	(3,369,021)	339,118	28,343	(1,565,605)	(6,268,337)
Net surplus for the year		4,929,195	1,633,779	430,550	1,004,726	1,407,426	452,714	1,361,589
Other comprehensive income	29	(21)	–	–	–	–	–	–
Total comprehensive income for the year		4,929,174	1,633,779	430,550	1,004,726	1,407,426	452,714	1,361,589
Transfer from revaluation reserve		2,763	276	169	403	1,887	28	–
Transfer to Account reserves		(2,763)	–	–	–	–	–	–
Balance at the end of the year (deficit)		(2,253,162)	(984,201)	(2,938,302)	1,344,247	1,437,656	(1,112,863)	(4,906,748)

The accompanying notes form part of these financial statements.

Consolidated statement of changes in reserves (equity)

For the year ended 30 June 2012

\$000	Notes	Actual Total	Actual Motor Vehicle Account	Actual Non- Earners' Account	Actual Earners' Account	Actual Work Account	Actual Treatment Injury Account
Total Account reserves							
Balance at the beginning of the year (deficit)		(6,711,641)	(2,513,531)	(2,652,523)	(49,094)	(288,011)	(1,208,482)
Net (deficit) surplus for the year		(473,780)	(104,725)	(716,498)	388,212	316,354	(357,123)
Other comprehensive income		–	–	–	–	–	–
Total comprehensive income for the year		(473,780)	(104,725)	(716,498)	388,212	316,354	(357,123)
Balance at the end of the year (deficit)		(7,185,421)	(2,618,256)	(3,369,021)	339,118	28,343	(1,565,605)
Revaluation reserves							
Balance at the beginning of the year		5,142	–	–	–	–	–
Net surplus for the year		–	–	–	–	–	–
Other comprehensive income	29	(2,057)	–	–	–	–	–
Total comprehensive income for the year		(2,057)	–	–	–	–	–
Balance at the end of the year		3,085	–	–	–	–	–
Total reserves							
Balance at the beginning of the year (deficit)		(6,706,499)	(2,513,531)	(2,652,523)	(49,094)	(288,011)	(1,208,482)
Net (deficit) surplus for the year		(473,780)	(104,725)	(716,498)	388,212	316,354	(357,123)
Other comprehensive income	29	(2,057)	–	–	–	–	–
Total comprehensive income for the year		(475,837)	(104,725)	(716,498)	388,212	316,354	(357,123)
Balance at the end of the year (deficit)		(7,182,336)	(2,618,256)	(3,369,021)	339,118	28,343	(1,565,605)

Statement of comprehensive income and changes in Account reserves (equity)

Motor Vehicle Account

For the year ended 30 June 2013

\$000	Note	Actual 2013	Actual 2012	Budget 2013
Levy revenue from motor licensing		751,459	747,043	747,303
Levy revenue from petrol levy		298,101	302,562	289,997
Motorcycle safety levy		2,408	4,294	2,353
Other income		32	209	27
Total net levy and other income		1,052,000	1,054,108	1,039,680
Investment income		588,805	434,518	325,339
Less investment costs		17,298	15,077	14,477
Net investment income		571,507	419,441	310,862
Claims paid		365,990	396,168	416,548
(Decrease) increase in outstanding claims liability	27	(422,790)	1,132,485	230,112
Total claims costs		(56,800)	1,528,653	646,660
Injury prevention costs		5,001	5,186	4,904
Operating costs		41,527	44,435	44,104
Net surplus (deficit)		1,633,779	(104,725)	654,874
Other comprehensive income		–	–	–
Total comprehensive income for the year		1,633,779	(104,725)	654,874
Account reserve – opening balance (deficit)		(2,618,256)	(2,513,531)	(2,233,036)
Net surplus (deficit) and total comprehensive income		1,633,779	(104,725)	654,874
Transfer from revaluation reserve		276	–	–
Account reserve – closing balance (deficit)		(984,201)	(2,618,256)	(1,578,162)

Statement of comprehensive income and changes in Account reserves (equity)

Non-Earners' Account

For the year ended 30 June 2013

\$'000	Note	Actual 2013	Actual 2012	Budget 2013
Levy revenue appropriated by Parliament		1,201,255	1,096,254	1,150,508
Less funding of Treatment Injury Account		(232,567)	(191,268)	(229,878)
Other income		10	168	1
Total net levy and other income		968,698	905,154	920,631
Investment income		259,423	165,870	133,727
Less investment costs		7,059	6,630	6,000
Net investment income		252,364	159,240	127,727
Claims paid		776,687	737,198	799,697
(Decrease) increase in outstanding claims liability	27	(64,202)	971,020	212,315
Total claims costs		712,485	1,708,218	1,012,012
Injury prevention costs		3,304	3,888	3,051
Operating costs		74,723	68,786	72,538
Net surplus (deficit)		430,550	(716,498)	(39,243)
Other comprehensive income		–	–	–
Total comprehensive income for the year		430,550	(716,498)	(39,243)
Account reserve – opening balance (deficit)		(3,369,021)	(2,652,523)	(3,032,001)
Net surplus (deficit) and total comprehensive income		430,550	(716,498)	(39,243)
Transfer from revaluation reserve		169	–	–
Account reserve – closing balance (deficit)		(2,938,302)	(3,369,021)	(3,071,244)

Statement of comprehensive income and changes in Account reserves (equity)

Earners' Account

For the year ended 30 June 2013

\$000	Notes	Actual 2013	Actual 2012	Budget 2013
Levy revenue		1,495,612	1,680,377	1,480,874
Less funding of Treatment Injury Account		(162,594)	(157,630)	(162,326)
Other income		460	681	417
Total net levy and other income		1,333,478	1,523,428	1,318,965
Investment income		534,034	470,280	304,008
Less investment costs		15,797	14,042	13,574
Net investment income		518,237	456,238	290,434
Claims paid		861,267	811,465	863,380
(Decrease) increase in outstanding claims liability	27	(200,925)	619,276	343,344
Movement in unexpired risk liability	26	30,542	11,535	41,446
Total claims costs		690,884	1,442,276	1,248,170
Injury prevention costs		4,349	5,225	4,180
Operating costs		151,756	143,953	151,823
Net surplus		1,004,726	388,212	205,226
Other comprehensive income		–	–	–
Total comprehensive income for the year		1,004,726	388,212	205,226
Account reserve – opening balance (deficit)		339,118	(49,094)	280,803
Net surplus and total comprehensive income		1,004,726	388,212	205,226
Transfer from revaluation reserve		403	–	–
Account reserve – closing balance		1,344,247	339,118	486,029

Statement of comprehensive income and changes in Account reserves (equity)

Work Account

For the year ended 30 June 2013

\$'000	Notes	Actual 2013	Actual 2012	Budget 2013
Levy revenue		966,000	1,034,419	957,273
Other income		410	685	424
Total net levy and other income		966,410	1,035,104	957,697
Investment income		505,889	529,315	292,559
Less investment costs		14,932	13,682	13,038
Net investment income		490,957	515,633	279,521
Claims paid		539,335	551,975	598,830
(Decrease) increase in outstanding claims liability	27	(572,487)	471,565	79,677
Movement in unexpired risk liability	26	(57,057)	57,057	19,769
Total claims costs		(90,209)	1,080,597	698,276
Injury prevention costs		9,737	8,672	7,835
Operating costs		130,413	145,114	144,018
Net surplus		1,407,426	316,354	387,089
Other comprehensive income		–	–	–
Total comprehensive income for the year		1,407,426	316,354	387,089
Account reserve – opening balance (deficit)		28,343	(288,011)	13,767
Net surplus and total comprehensive income		1,407,426	316,354	387,089
Transfer from revaluation reserve		1,887	–	–
Account reserve – closing balance		1,437,656	28,343	400,856
Reserve for future gradual process claims	28	393,300	232,600	365,400
Reserve for all other claims		1,044,356	(204,257)	35,456
Account reserve		1,437,656	28,343	400,856

Statement of comprehensive income and changes in Account reserves (equity)

Treatment Injury Account

For the year ended 30 June 2013

\$000	Note	Actual 2013	Actual 2012	Budget 2013
Levy revenue funded by Non-Earners' Account		232,567	191,268	229,878
Levy revenue funded by Earners' Account		162,594	157,630	162,326
Other income		3	36	-
Total net levy and other income		395,164	348,934	392,204
Investment income		202,289	111,503	113,093
Less investment costs		5,654	4,528	4,409
Net investment income		196,635	106,975	108,684
Claims paid		95,888	106,203	98,862
Increase in outstanding claims liability	27	26,260	691,614	237,363
Total claims costs		122,148	797,817	336,225
Injury prevention costs		-	-	-
Operating costs		16,937	15,215	11,020
Net surplus (deficit)		452,714	(357,123)	153,643
Other comprehensive income		-	-	-
Total comprehensive income for the year		452,714	(357,123)	153,643
Account reserve – opening balance (deficit)		(1,565,605)	(1,208,482)	(1,303,012)
Net surplus (deficit) and total comprehensive income		452,714	(357,123)	153,643
Transfer from revaluation reserve		28	-	-
Account reserve – closing balance (deficit)		(1,112,863)	(1,565,605)	(1,149,369)

Consolidated statement of financial position

As at 30 June 2013

\$'000	Notes	Actual 2013	Actual 2012	Budget 2013
Account reserves				
Motor Vehicle Account		(984,201)	(2,618,256)	(1,578,162)
Non-Earners' Account		(2,938,302)	(3,369,021)	(3,071,244)
Earners' Account		1,344,247	339,118	486,029
Work Account		1,437,656	28,343	400,856
Treatment Injury Account		(1,112,863)	(1,565,605)	(1,149,369)
Total Account reserves		(2,253,463)	(7,185,421)	(4,911,890)
Revaluation reserves	29	301	3,085	5,142
Total reserves (deficit)		(2,253,162)	(7,182,336)	(4,906,748)
Represented by:				
Assets				
Cash and cash equivalents	12	406,784	240,905	502,025
Receivables	13	364,531	380,320	427,826
Accrued levy revenue	14	2,606,816	2,589,385	2,601,111
Investments	15	24,616,354	21,752,973	24,914,597
Derivative financial instruments	16	254,494	382,483	–
Investment properties	18	160,390	27,200	31,050
Investment intangible asset	19	55,600	–	–
Property, plant and equipment	21	38,974	51,532	65,463
Intangible assets	22	114,464	117,896	111,831
Total assets		28,618,407	25,542,694	28,653,903
Less liabilities				
Derivative financial instruments	16	184,791	37,324	–
Payables and accrued liabilities	23	1,171,511	1,972,031	2,909,259
Provisions	24	69,229	67,244	–
Unearned levy liability	25	2,241,710	2,183,444	2,209,846
Unexpired risk liability	26	42,077	68,592	213,388
Outstanding claims liability	27	27,162,251	28,396,395	28,228,158
Total liabilities		30,871,569	32,725,030	33,560,651
Net liabilities		(2,253,162)	(7,182,336)	(4,906,748)

For and on behalf of the Board, which authorised the issue of these financial statements on 26 September 2013:



Paula Rebstock

Board Chair

Date: 26 September 2013



John Meehan

Board member

Date: 26 September 2013

Consolidated statement of cash flows

For the year ended 30 June 2013

\$000	Note	Actual 2013	Actual 2012	Budget 2013
Cash flows from operating activities				
Cash was provided from:				
Levy revenue		4,737,923	4,876,890	4,646,811
Interest		674,609	636,848	884,521
Dividends		281,948	225,289	279,172
Other income		5,982	5,986	5,902
Taxation refund		–	132	–
		5,700,462	5,745,145	5,816,406
Cash was applied to:				
Payments to injured persons, suppliers and employees		3,071,773	3,059,066	3,222,899
Goods and services tax (GST) (net)		9,912	(2,383)	2,818
		3,081,685	3,056,683	3,225,717
Net cash movement from operating activities	30	2,618,777	2,688,462	2,590,689
Cash flows from investing activities				
Cash was provided from:				
Proceeds from sale of investments		31,121,712	35,301,976	27,326,590
Proceeds from sale of subsidiary		–	815	–
Proceeds from sale of property, plant and equipment		7,024	1,045	–
		31,128,736	35,303,836	27,326,590
Cash was applied to:				
Payment for investments		33,539,367	38,317,402	29,859,779
Disposal of subsidiary		–	278	–
Payment for property, plant and equipment		3,163	5,381	15,042
Payment for intangible assets		39,104	34,991	42,458
		33,581,634	38,358,052	29,917,279
Net cash movement from investing activities		(2,452,898)	(3,054,216)	(2,590,689)
Net increase (decrease) in cash and cash equivalents		165,879	(365,754)	–
Cash and cash equivalents - opening balance		240,905	606,659	502,025
Cash and cash equivalents - closing balance		406,784	240,905	502,025

Statement of commitments

As at 30 June 2013

\$'000	Consolidated	
	Actual 2013	Actual 2012
Capital commitments approved and contracted	170,474	52,851
Non-cancellable operating lease commitments:		
Not later than one year	16,818	14,764
Later than one year but not greater than two years	15,468	11,260
Later than two years but not greater than five years	39,062	30,665
Later than five years	65,395	61,400
Total non-cancellable operating lease commitments	136,743	118,089
Total commitments	307,217	170,940

Non-cancellable operating lease commitments

ACC leases premises for its branch network and its corporate offices. The leases have varying terms and renewal options. The amounts disclosed above as future commitments are based on lease payments up to the next renewal dates of the leases on current rental rates.

Capital commitments

The majority of these are investment-related commitments.

At 30 June 2013, ACC had entered into agreements to purchase a property and build an extension on a current property. These commitments total \$59.7 million.

At 30 June 2013, ACC had entered into agreements to purchase fixed interest securities for \$60 million.

At 30 June 2013, ACC had not entered into sub-underwriting agreements to purchase equity issuance (2012: commitments of \$2.0 million settled 5 July 2012).

The private equity portfolio includes investments in several venture capital/private equity funds. Investors do not invest upfront. These funds seek commitments from investors, and only 'call' for the committed funds as they are required. ACC has committed to invest up to a total of \$143.7 million (2012: \$126.1 million) in these funds. As at 30 June 2013, ACC had undrawn commitments to these funds totalling \$50.3 million (2012: \$50.2 million). The private equity portfolio is split between New Zealand, Australian and overseas equities and overseas debt securities.

Statement of contingent liabilities and assets

As at 30 June 2013

The estimated contingent liabilities are as follows:

\$000	Consolidated	
	Actual 2013	Actual 2012
Legal proceedings	115	97
Total contingent liabilities	115	97

Litigation involving ACC arises almost exclusively from challenges to operational decisions made by ACC through the statutory review and appeal process. No accrual has been made for contingent liabilities that could arise as these disputes are issue based and ACC's active management of litigation means that it will be either settling or vigorously defending, depending on the merits of the issue in dispute. The ACC Board believes the resolution of outstanding appeals will not have any material effect on the financial statements of ACC.

The estimated contingent assets are as follows:

\$000	Consolidated	
	Actual 2013	Actual 2012
Legal proceedings	–	867
GST claim	–	17,000
Earthquake claim	–	5,000
Total contingent assets	–	22,867

In 2012 there was a statutory demand related to a claim for the reimbursement of overpayments made by ACC. The recovery of this amount was uncertain as it was subject to litigation.

On 11 July 2011, Inland Revenue agreed in principle that ACC may claim an output tax deduction for payments made to clients, pursuant to any contract of insurance, under section 20(3)(d) of the Goods and Services Tax Act 1985. In 2012 a contingent asset of \$17.0 million existed for the amount of the GST output tax deduction that ACC intended to claim. This asset was realised in 2013.

A contingent asset existed in 2012, estimated to be \$5.0 million, in relation to the insurance claims for the Christchurch earthquake on 22 February 2011. This asset was realised in 2013.

Notes to the financial statements

For the year ended 30 June 2013

1. Summary of significant accounting policies

(a) Reporting entity

The financial statements are those of the Accident Compensation Corporation (ACC), which is designated as a Crown Agent under the Crown Entities Act 2004.

ACC and its subsidiary comprise the ACC group (the 'group').

ACC is the Crown entity in New Zealand that manages New Zealand's accident compensation scheme. It provides comprehensive, 24-hour, no-fault personal injury cover for all New Zealand residents and visitors to New Zealand. The subsidiary is incorporated in New Zealand.

The financial statements have been prepared in accordance with the:

- Crown Entities Act 2004
- Financial Reporting Act 1993
- Accident Compensation Act 2001 (referred to hereafter as 'the AC Act').

(b) Statement of compliance

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards as appropriate for public benefit entities (PBEs).

The group presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in the notes.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense will not be offset in the consolidated statement of comprehensive income unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the group.

(c) Basis of preparation

The financial statements are prepared on the basis of historical cost unless the application of fair value measurements is required by relevant accounting standards.

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000) unless otherwise stated.

Notes to the financial statements

For the year ended 30 June 2013

Standards and interpretations issued but not yet effective

ACC has not applied the following standards and interpretations that have been issued and which may be applicable but are not yet effective for PBEs:

Reference	Title	Application date of standard	Impact on group financial statements	Application date for group
	PBE Standards for Tier 1 and Tier 2 Public Sector Entities	1 July 2014	The new PBE Standards are based on International Public Sector Accounting Standards which are themselves based on IFRS. Therefore major changes to accounting policies are not expected. Nevertheless, there are some potentially significant differences and also a range of smaller differences between the PBE Standards and NZ IFRS.	1 July 2014

The group will apply these for the reporting period beginning on or after the application dates set out above.

(d) Consolidation of subsidiaries

Subsidiaries are those entities for which ACC has control, through its direct or indirect interest. The consolidated financial statements comprise the financial statements of ACC and its subsidiaries as at 30 June each year, which have been consolidated. Where there is a loss of control of a subsidiary, the financial statements include the results for the part of the reporting year during which ACC had control.

Consistent accounting policies are applied to the subsidiaries' financial statements, which are prepared for the same reporting period as ACC.

All intercompany transactions, balances and unrealised surpluses are eliminated on consolidation.

ACC's investment in its subsidiary is carried at cost less impairment losses in ACC's financial statements. The subsidiary is detailed in Note 20.

(e) Levies

During 1998 and 1999 the basis of setting levies and residual levies moved from a pay-as-you-go basis to a fully funded basis for all levy payers other than the Government in respect of the Non-Earners' Account.

Sustainable levies are recommended by the ACC Board to achieve full funding for the Motor Vehicle, Earners' and Work Accounts but final levy rates are set by the Government. The Non-Earners' Account has been fully funded by the Government since 1 July 2001 in respect of claims incurred from that date. Claims before that date continue to be funded on a pay-as-you-go basis.

In addition to the above, residual amounts of \$2,884 million, \$457 million and \$3,404 million as specified by the Minister for ACC are to be fully funded by 2019 in respect of the Motor Vehicle, Earners' and Work Accounts respectively. The residual amounts are intended, among other things, to represent the ongoing cost of rehabilitation and compensation benefits for injuries that occurred prior to 1 July 1999, and in addition for the Work Account the potential liability as at 30 June 2009 in respect of future claims for cover for personal injury caused by work-related gradual process, disease or infection before 1 July 1999.

The Treatment Injury Account is funded through levies set for the Earners' and Non-Earners' Accounts in proportion to the earner status of treatment injury claims, and reflects the funding bases of those Accounts.

Notes to the financial statements

For the year ended 30 June 2013

(f) Source and application of levy revenue

The AC Act requires ACC to ensure that levy revenue and expenditure are received, applied and accounted for separately. Except as otherwise authorised under the AC Act, ACC must not use the funds from one Account to meet any costs arising under another Account. The source and application of levy and residual levy revenue for each Account are as follows:

(i) Motor Vehicle Account

The Motor Vehicle Account derives its funds from:

- levies on motor vehicle ownership
- the levies portion of the excise duty on petrol
- the motorcycle safety levy on moped and motorcycle owners.

These funds are applied in accordance with the AC Act in respect of motor vehicle injuries suffered on or after 1 April 1974.

(ii) Non-Earners' Account

The Non-Earners' Account derives its funds from appropriations by Parliament.

These funds are applied in accordance with the AC Act in respect of personal injuries (other than motor vehicle injuries) to non-earners suffered on or after 1 April 1974.

(iii) Earners' Account

The Earners' Account derives its funds from:

- levies payable by earners on their earnings
- levies from the purchase of weekly compensation by non-earners.

These funds are applied in accordance with the AC Act in respect of personal injuries to earners (other than work injuries or motor vehicle injuries) suffered on or after 1 July 1992.

(iv) Work Account

The Work Account derives its funds from levies payable by employers and earners who are self-employed.

These funds are applied in accordance with the AC Act in respect of:

- work injuries suffered on or after 1 April 2000 by employees of employers who are insured by ACC, and for all employees' work injuries incurred on and after 1 July 2000
- work injuries suffered on or after 1 July 1999 and before 1 July 2000 by self-employed persons who were insured by ACC, and for all self-employed work injuries incurred on and after 1 July 2000
- accidents, prior to 1 July 1999, that are non-work injuries (other than motor vehicle injuries) suffered by earners on or after 1 April 1974 and before 1 July 1992
- accidents, prior to 1 July 1999, that are work injuries, other than motor vehicle injuries, suffered on or after 1 April 1974.

(v) Treatment Injury Account

The Treatment Injury Account derives its funds from allocations from the Earners' Account (in the case of an earner) and the Non-Earners' Account (in the case of a non-earner).

These funds are applied in accordance with the AC Act in respect of personal injuries arising from medical misadventure suffered on or after 1 July 1992 or arising from treatment on or after 1 July 2005.

(g) Levy revenue

All levy revenue is recognised in the levy period to which it relates.

Notes to the financial statements

For the year ended 30 June 2013

Levy revenue relating to levy periods that commenced prior to balance date is accrued if not yet invoiced. This is estimated based on expected liable earnings at the applicable levy rate. The levy revenue is earned evenly over the levy period.

The proportion of levies not earned at the reporting date is recognised in the statement of financial position as unearned levy liability.

(h) Investment income

Investment income consists of, and is recognised on the following basis:

- dividends on equity securities are recorded as revenue on the ex-dividend date
- interest income is recognised as it accrues taking into account the effective yield on the investments
- the realised gain/loss on disposal of an investment asset represents the difference between the proceeds received and its carrying value
- unrealised gains/losses on fair value investment assets represent the difference between the carrying value at the year end and the carrying value at the previous year end or purchase value during the year, less the reversal of previously recognised unrealised gains/losses in respect of disposals made during the year.

(i) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

(i) ACC as a lessee

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term. Operating lease incentives received are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and the reduction of the liability.

(ii) ACC as a lessor

Leases in which ACC retains substantially all the risks and benefits of ownership of the leased asset are classified as operating leases. Contingent rents are recognised as revenue in the period in which they are earned.

(j) Allocation of indirect income and expenditure

Indirect income and expenditure are allocated to each Account as follows:

(i) Investment income

Each investment portfolio is 'owned' in differing proportions by the various Accounts. These proportions are adjusted whenever an Account places additional funds into, or withdraws funds from, an investment portfolio. Investment income from each investment portfolio is allocated between Accounts each day, based on the Accounts' proportionate 'ownership' of the portfolios from which the investment income is derived. Some derivative positions are allocated directly between Accounts rather than to investment portfolios. Income from these positions is directly allocated to the Accounts in proportion to their ownership of those derivative positions.

(ii) Investment, injury prevention and operating costs

Investment, injury prevention and operating costs are allocated based on the operating activities undertaken for each Account.

(k) Income tax

ACC is exempt from the payment of income tax under section 259(5) of the AC Act. The subsidiary companies were, however, liable for income tax.

Notes to the financial statements

For the year ended 30 June 2013

The current tax expense is based on the taxable profits for the year, after any adjustments in respect of prior years. It is calculated using tax rates and tax laws that had been enacted or substantively enacted at balance date.

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of taxable temporary differences arising from differences between the tax base of assets and liabilities, and its corresponding carrying amount for financial reporting purposes.

Income tax relating to items recognised in other comprehensive income is recognised in other comprehensive income.

(l) Cash and cash equivalents

Cash and cash equivalents are considered to be cash on hand, current accounts with banks, deposits held on call with banks, and other short-term highly liquid investments with original maturities of three months or less, net of outstanding bank overdrafts. The carrying values of these items are equivalent to their fair values. Cash and cash equivalents exclude items held for investment purposes and not used for short term cash needs.

(m) Receivables

Receivables are stated at their fair value (refer to Note ac). Owing to the short-term nature of these assets the recoverable value, allowing for impairment, will generally be the fair value.

(n) Investments

All investments, other than investment properties, are designated as financial assets at fair value through profit or loss.

Purchases and sales of investment assets are recognised on the trade-dates, the dates on which the group commits to purchase or sell the assets.

Investments are recognised initially at cost being the fair value of consideration given. All transaction costs and management fees for ACC's investment assets are expensed through the statement of comprehensive income. All investments are subsequently carried at fair value. Any changes in fair value are recognised in surplus or deficit in the period in which they arise.

Fair value for investment assets is determined as follows:

- listed shares and unit trusts are valued at the quoted bid price at the close of business on the balance date
- non-listed equity investments (private equity and venture capital) are recognised at the initial cost of investment and adjusted for performance of the business and investment markets since that date. This is consistent with the 'International Private Equity and Venture Capital Valuation Guidelines'
- New Zealand and overseas bonds are valued at bid yield
- unlisted unit trust investments are valued based on the exit price rather than the entry price
- for investments with no active market, fair values are determined using valuation techniques. Such techniques include arm's-length transactions, reference to the current market value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models, making as much use of available and supportable market data as possible and keeping judgemental inputs to a minimum.

(o) Derivative financial instruments

ACC uses various derivative financial instruments such as foreign currency contracts, interest rate swaps and futures to manage its exposure to movements in foreign currency exchange rates, interest rates and equity markets. Derivatives may also be used temporarily in lieu of purchasing bonds, equities or currency. The use of financial instruments is covered by investment policies that control the risk associated with such instruments.

Derivative financial instruments are held for trading and classed as financial assets at fair value through profit or loss. Any changes in fair value are recognised in surplus or deficit in the period in which they arise.

Notes to the financial statements

For the year ended 30 June 2013

Fair value for derivative financial instruments is determined as follows:

- forward foreign currency contracts are valued with reference to quoted forward exchange rates and yield curves derived from quoted interest rates with similar maturity profiles
- the fair value of interest rate swaps is measured at the present value of future cash flows discounted based on the applicable yield curves derived from quoted interest rates. The quoted market yield for valuing interest rate swaps is the closing bid yield
- cross-currency interest rate swaps is valued using quoted market bid yields and exchange rate at balance date
- futures contracts are valued using quoted bid prices
- credit default swaps are valued based on a mid-evaluation approach not favouring either the bid or sell sides, in line with industry practice.

Derivatives are reported in the statement of financial position as assets when their fair value is positive and as liabilities when their fair value is negative.

(p) Associates

Associates are entities over which ACC has significant influence and that are neither subsidiaries nor joint ventures.

Investments that are held as part of ACC's investment portfolio are carried in the statement of financial position at fair value even though ACC may have significant influence over those entities. This treatment is permitted by NZ IAS 28 Investment in Associates, which allows these investments to be excluded from its scope where those investments are designated, upon initial recognition, as at fair value through profit or loss and accounted for in accordance with NZ IAS 39 Financial Instruments: Recognition and Measurement, with changes in fair value recognised in surplus or deficit in the period of the change.

ACC has no investments in associates through which it carries on its business.

(q) Joint ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Interests in joint ventures that are held as part of ACC's investment portfolio are carried in the statement of financial position at fair value. This treatment is permitted by NZ IAS 31 Interests in Joint Ventures, which allows these investments to be excluded from its scope where those investments are designated, upon initial recognition, as at fair value through profit or loss and accounted for in accordance with NZ IAS 39 Financial Instruments: Recognition and Measurement, with changes in fair value recognised in surplus or deficit in the period of the change.

ACC has no interests in joint ventures through which it carries on its business.

(r) Investment properties

Investment properties are properties held to earn rental income or for capital appreciation, or both, that are not occupied by ACC. Investment properties are initially recognised at cost including transaction costs. Subsequent to initial recognition, they are stated at their fair value, which is the market valuation supported by a qualified external valuer.

Depreciation is not charged on investment properties. Changes in fair value are recognised in surplus or deficit in the period in which they arise and recorded within investment income as an unrealised gain or loss.

(s) Investment intangible asset

Concession rights arrangement

ACC recognises an intangible asset arising from a concession rights arrangement when it has a right to charge for usage of the concession facilities. The intangible asset is carried at cost less accumulated amortisation and accumulated impairment.

Notes to the financial statements

For the year ended 30 June 2013

Amortisation is calculated on a straight-line basis. The estimated useful life is the period when ACC is able to charge the public for the use of the facilities to the end of the concession period.

As this intangible asset is held as part of ACC's investment portfolio, it is classed separately in the statement of financial position.

(t) Foreign currencies

Both the functional and presentation currency of ACC and its subsidiaries are New Zealand dollars.

Foreign currency transactions are accounted for at the exchange rates prevailing at the dates of the transactions. At balance date foreign currency monetary assets and foreign currency forward contracts are translated at the rate ruling at balance date with exchange valuations arising from the translation process recognised directly in surplus or deficit.

(u) Property, plant and equipment

Property, plant and equipment are initially recorded at cost including transaction costs. Subsequent to initial recognition, land and buildings are carried at their revalued amount. The revalued amount is net of any impairment losses and, for buildings, less depreciation accumulated since the asset was last revalued. All other items classed as property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value.

(i) Revaluations

Fair value is determined with reference to market-based evidence provided by an independent valuer. Any revaluation increase is credited to the asset revaluation reserve for that asset, except to the extent it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit. A decrease in carrying amount arising from the revaluation of land and buildings is recognised in the surplus or deficit unless it directly offsets a previous surplus in the same asset in the asset revaluation reserve.

(ii) Depreciation

Depreciation is calculated on a straight-line basis so as to allocate the cost or valuation of assets, less any estimated residual value, over their estimated useful lives. Freehold land is not depreciated.

The estimated useful lives are as follows:

Buildings	50 years
Freehold improvements	10 years
Leasehold improvements	Up to 10 years*
Furniture, fittings and equipment	4 years
Mainframe computer and network equipment	5 years
Personal computer equipment	3 years
Motor vehicles	5 years

**Leasehold improvements are depreciated over the lower of the remaining life of the lease, or 10 years.*

(v) Intangible assets

Computer software

Computer software assets, most of which are internally generated arising from capital development projects, are carried at cost less accumulated amortisation and accumulated impairment.

Notes to the financial statements

For the year ended 30 June 2013

Research costs incurred in the investigation phase of these projects are expensed when incurred. Development costs are accumulated as work in progress until the project is completed, at which stage direct project costs are capitalised as an intangible asset.

Amortisation is calculated on a straight-line basis. The amortisation period for computer software is five to seven years.

(w) Impairment of assets

At each reporting date, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). The recoverable amount is the higher of an asset's fair value less costs to sell, and value in use.

Value in use is depreciated replacement cost for an asset where the future economic benefits or service potential of the asset are not primarily dependent on the asset's ability to generate net cash inflows and where the group would, if deprived of the asset, replace its remaining future economic benefits or service potential.

If the asset's carrying amount exceeds its recoverable amount, the asset is impaired and the carrying amount is written down to the recoverable amount. The total impairment loss is recognised in surplus or deficit.

(x) Employee benefits

Short-term benefits

Employee benefits that are expected to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay.

These include salaries and wages accrued to balance date, annual leave earned but not yet taken at balance date, long service leave entitlements expected to be settled within 12 months, and sick leave.

A liability for sick leave is recognised to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that it is anticipated that it will be used by staff to cover those future absences.

Long-term benefits

Entitlements that are payable beyond 12 months, such as long service leave and retirement benefit, are recognised at the best estimate of the expected future cash outflows, discounted using the discount rate applied in determining the actuarial estimate of the outstanding claims liability.

Defined contribution plan

The group operates a defined contribution plan. Contributions to this are expensed when incurred.

(y) Provisions

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are measured at the best estimate of expected future cash flows and discounted to present value where the effect is material.

The group recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

(z) Payables and accrued liabilities

Payables and accrued liabilities are carried at amortised cost and due to their short-term nature they are not discounted.

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For the year ended 30 June 2013

(aa) Unexpired risk liability

At each balance date, ACC reassesses whether the levy income embodied in the unearned levy liability is sufficient to cover all expected future cash flows relating to future claims against levies received in the current period. This assessment is referred to as the liability adequacy test and is performed for each Account. Gradual process claims are excluded from the liability adequacy test.

If the present value of the expected future cash flows relating to future claims plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned levy liability, then the unearned levy liability is deemed to be deficient. ACC applies a risk margin to achieve the same probability of sufficiency for future claims as is achieved by the estimate of the claims liability.

The entire deficiency is recognised immediately in surplus or deficit. The deficiency is recorded in the statement of financial position as an unexpired risk liability.

(ab) Outstanding claims liability

The outstanding claims liability consists of expected future payments associated with:

- claims reported and accepted as at the valuation date that remain unsettled as at the valuation date
- claims incurred but not reported to, or accepted by, ACC as at the valuation date
- closed claims that are expected, on the basis of actuarial projections, to be reopened after the valuation date
- the costs of managing reported but unsettled, reopened, and IBNR (incurred but not yet reported) claims.

The accrued outstanding claims liability is the central estimate of the present value of expected future payments on claims occurring on or before the balance date, 30 June 2013, plus a risk margin to ensure the accrued liability is sufficient to meet all the costs of future claim payments 75% of the time.

Future payments associated with gradual process claims that are not yet reported are not included in the outstanding claims liability. ACC's major exposure to gradual process or latent claims is in respect of hearing loss and asbestos-related injuries. Section 37 of the AC Act states a person is considered injured when:

- they first report the incapacity; or
- they first receive medical treatment for the incapacity.

The AC Act effectively defines gradual process claims as being consistent with the 'claims made' policies issued by general insurance entities. That is, clients are covered for a specified contract period, regardless of when the event occurred giving rise to the claim. Under 'claims made' policies, an insurer only has liability for reported claims.

(ac) Assets backing insurance liabilities

ACC has designated financial assets held in portfolios that match the expected future cash flows arising from insurance liabilities, as assets backing insurance liabilities. These assets are managed and evaluated on a fair value basis.

Assets that back insurance liabilities are initially recognised at fair value and subsequently measured at fair value through profit or loss.

These assets and their fair value are listed as follows:

- cash assets and bank overdrafts are carried at face value which approximates fair value
- investments (see Note n)
- derivative financial instruments (see Note o)
- investment properties (see Note r)
- receivables (see Note m).

Notes to the financial statements

For the year ended 30 June 2013

(ad) Budget figures

The budget figures in the financial statements are those provided in ACC's Statement of Intent 2012-2015. Section 154(3) of the Crown Entities Act 2004 requires this to be provided for comparison with the actual financial statements. The Statement of Intent was prepared based on the claims valuation as at 31 December 2011 using discount rates at 31 March 2012. Refer to Note 35.

The budget figures have been prepared in accordance with NZ GAAP and are consistent with the accounting policies adopted in preparing the financial statements. The budget figures are un-audited.

(ae) Changes to accounting policies

There are no changes in accounting policies except for that arising from the adoption of new standards and interpretations.

The following new additions and amendments to NZ IFRS and interpretations did not have any impact on the accounting policies, financial position or performance of the group:

- Amendments to NZ IAS 12 Income Taxes – Deferred Tax: Recovery of Underlying Assets.

(af) Non-current assets held for sale

Non-current assets held for sale are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Any impairment losses for write-downs of non-current assets held for sale are recognised in the surplus or deficit. Any increases in fair value (less costs to sell) are recognised up to the level of any impairment losses that have been previously recognised.

Non-current assets held for sale are not depreciated or amortised while they are classified as held for sale.

(ag) Financial statements of the parent

As at 30 June 2013 separate parent and group financial statements had not been disclosed as the ACC Board did not consider the differences to be material.

2. Critical accounting judgements, estimates and assumptions

ACC makes estimates and assumptions in respect of certain key assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas in which critical estimates are applied are described below.

(a) Outstanding claims liability

The outstanding claims liability consists of expected future payments associated with:

- claims reported and accepted as at the valuation date that remain unsettled as at the valuation date
- claims incurred but not reported to, or accepted by, ACC as at the valuation date
- closed claims that are expected, on the basis of actuarial projections, to be reopened after the valuation date
- the costs of managing reported but unsettled, reopened, and IBNR claims.

The estimated liability is on a 'best estimate' basis. This means there is no deliberate over- or under-statement of any component of the liability. Owing to the uncertainty in the outstanding claims liability estimate and the number of assumptions required in its determination it is highly likely that actual experience will differ from the stated estimate. A risk margin is added to the central estimate to increase the probability to a 75% confidence level that the estimate will not be less than actual

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payouts. The future claim payments are brought to present value as at the valuation date using a risk free discount rate. Standard actuarial techniques are used to formulate the central estimate taking into account trends in historical claims data, reviewing current conditions that may affect future trends, and scanning the horizon of possible changes that may affect trends in the future.

Where possible both the number of claims receiving payments and the average amounts of these payments are analysed separately. When claim numbers are too unstable for this method to be reliable, an analysis of aggregate payments is undertaken.

The following actuarial valuation techniques are used to project the various benefit types:

- payment per active claim method
- payment decay method
- individual claim projection method.

Some elements of the claims liability are subject to more uncertainty than others. For past injury years a higher proportion of the ultimate number of claims for that year will have been reported. These reported claims will have a longer history of payments and a smaller outstanding amount, all other things being equal, than claims reported in more recent injury years. IBNR claims have no payment history and must be estimated in their entirety. Hence the outstanding claims liability estimate for more recent injury years will be subject to more uncertainty.

The general sources of uncertainty include:

- actual future claim closure rates differ from those expected due to unanticipated changes to Scheme utilisation rates associated with prior injuries
- actual future claim costs differ from those expected due to unanticipated inflationary trends and claims durations
- the actual timing of claim payments differs from those expected
- unanticipated changes in operational processes that affect claim development patterns
- future advances in medicine and treatment may affect recovery periods, cost structures and Scheme utilisation
- ACC legislation is periodically reviewed and court cases can result in entitlements that are not anticipated being paid.

Currently the largest areas of uncertainty affecting the outstanding claims liability include:

- the future costs associated with personal and social rehabilitation support services provided to individuals experiencing significant disability as a result of injury, in particular the cost of personal care services, whether they be home or residential based care. These may involve anything from helping with daily duties to providing nursing care services. The number of hours per day, types of service required, provider type and average costs per hour are key assumptions that need to be projected decades into the future. The estimate carries around it a wider range of uncertainty due to the length of the projection period and the variation of disabilities and/or demonstrated independent participation by the clients
- in the years through to early 2009, there were significant increases in Scheme utilisation from growth in new claims volumes and longer claims durations. Over the past few years there have been reductions in claims volumes and durations. The improvement in claims duration is a result of changes made in claims management and operational initiatives implemented which have improved rehabilitation rates. The assumptions for claims volume and duration are subject to a higher level of uncertainty given the recent change in trend
- the costs of elective surgery continue to grow at a rate well above the Labour Cost Index (LCI) and Consumer Price Index (CPI); it is uncertain whether this trend will continue. A portion of this benefit (for example, implant purchases) is subject to currency exchange risk, which as of late has been quite volatile.

Notes to the financial statements

For the year ended 30 June 2013

Discounting methodology

Estimated future claim payments are adjusted in line with expectations of future inflation. These inflated cash flows are then discounted using a risk free rate that is based on the yield curves of New Zealand government bond rates. The longest term of a current New Zealand government bond is 10 years. Discount rates are smoothed over a minimum of 10 years with a maximum increment of 0.05% per annum to eventually attain a long-term risk-free discount rate of 5.50%. This long-term rate is based on an examination of average New Zealand government returns over an extended period of time.

Risk margin

The probability of sufficiency used for determining the outstanding claims liability is the same as that used for the liability adequacy test, which is 75%.

Refer to Notes 26 and 27.

Gradual process claims

In accordance with section 6 of the AC Act and Financial Reporting Standards, ACC recognises in its financial statements a liability for future payments in respect of claims incurred. The present value of the expected future payments for these claims is included in the outstanding claims liability.

This includes claims made for gradual process injuries. These claims are a result of injuries that have occurred due to prolonged exposure in the workplace to conditions that result in some form of harm. The most common examples of such claims are asbestosis (due to prolonged exposure to asbestos dust in the atmosphere) and hearing loss (due to prolonged exposure to excess noise).

Owing to the nature of these injuries, many years can pass between exposure to the conditions that result in harm and the individual receiving treatment or suffering incapacity.

ACC's accounting policy is to recognise a financial liability for gradual process injury when a claim is made. A gradual process claim can be made when a person is regarded as suffering personal injury caused by a work-related gradual process, disease or infection which, in accordance with section 37 of the AC Act, is at the earlier of the date that the person first receives treatment or the date that the injury first results in incapacity.

As part of determining that the above treatment is appropriate, ACC has taken external advice regarding the recognition of the liability for gradual process claims based on current legislation and Financial Reporting Standards.

The effect of this accounting treatment is that until the injury presents itself such that the person receives treatment or suffers incapacity and hence is entitled to make a claim, ACC does not record a liability in the outstanding claims liability.

However, in order to highlight the contingent liability related to persons who may have suffered exposure to conditions of harm but have not yet suffered incapacity or made a claim on ACC, an assessment of the potential payments under such future claims has been made and is disclosed by way of a note to the accounts in Note 28.

The Ministry of Business, Innovation and Employment is considering amendments to the AC Act that may result in a change to the timing of recognising a liability for future gradual process claims. Any such amendments may require ACC to change its accounting policy with respect to the recognition of a liability for gradual process claims and as a consequence include within the outstanding claims liability an actuarial estimate of both current and future gradual process claims.

(b) Levy receivables and accrued levy revenue

Levies required to fund the Work Account are invoiced directly to the employer or self-employed person based on their respective liable earnings at the applicable levy rate. Earner levies of shareholder-employees and self-employed are also invoiced directly. Earner levies of employee earners are collected within the PAYE system and are paid to ACC by Inland Revenue.

Notes to the financial statements

For the year ended 30 June 2013

Levy receivables and accrued levy revenue for the Work and Earners' Accounts are estimated by using their respective expected liable earnings and average levy rate.

Refer to Notes 13 and 14.

(c) Investment properties

External and independent valuation companies, having appropriate recognised professional qualifications and recent experience in the locations and categories of properties being valued, value the group's investment property portfolio every 12 months at balance date. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Refer to Note 18.

(d) Fair value of financial assets determined using valuation techniques

Where the fair values of financial assets recorded on the statement of financial position cannot be derived from active markets, they are determined using valuation techniques that include inputs derived from observable market data where possible, but where observable market data is not available, judgement is required to establish fair values. The judgements include considerations of liquidity risk, credit risk, and model inputs such as volatility for longer-dated instruments and discount rates, prepayment rates and default rate assumptions for asset-backed securities.

Changes in assumptions about these factors could affect the reported fair value of financial instruments.

At balance date ACC recorded \$71.9 million (2012: \$159.6 million) of asset-backed securities where the fair value was determined by the valuation technique above. Refer to Note 17(e).

(e) Impairment of intangible assets

ACC determines whether software intangible assets are impaired on an annual basis. This requires an estimation of the assets' recoverable amount based on their value in use. This requires management's estimates of replacing the remaining future economic benefits or service potential associated with the assets.

(f) Going concern assumption

The financial statements have been prepared on a going concern basis.

At 30 June 2013, ACC was in a negative equity position of \$2.3 billion (2012: \$7.2 billion). However, ACC has no external debt, has substantial investments and has positive operating cash flows. ACC expects to meet its ongoing commitments and to be fully funded in the Motor Vehicle, Earners' and Work Accounts by 2019.

In the event of a funding shortfall in the Non-Earners' Account, ACC would seek to secure further funding through imprest supply or a parliamentary appropriation; however, there is no ability to enforce the Government obligation to fund the Account. Alternatively ACC could borrow funds, which would require approval from the Minister of Finance in order to cover the payments made from the Non-Earners' Account or draw down on its reserves or investment income for the Non-Earners' Account.

Notes to the financial statements

For the year ended 30 June 2013

3. Underwriting result

The underwriting result is extracted from the statement of comprehensive income and is as follows:

\$000	2013 Total	Motor Vehicle Account	Non-Earners' Account	Earners' Account	Work Account	Treatment Injury Account	2012 Total
Net levy revenue	4,714,835	1,051,968	968,688	1,333,018	966,000	395,161	4,864,949
Rehabilitation (including treatment) costs							
Vocational rehabilitation	45,783	4,913	380	24,780	14,977	733	39,463
Social rehabilitation	418,712	130,592	137,864	48,798	59,612	41,846	405,814
Medical treatment	503,220	18,317	204,830	203,966	70,879	5,228	448,751
Hospital treatment	254,463	16,093	63,210	116,405	45,528	13,227	233,642
Public Health Acute Services	437,618	45,094	276,338	85,740	27,936	2,510	426,449
Dental treatment	21,054	931	10,954	6,468	2,553	148	21,167
Conveyance for treatment	81,428	12,372	45,775	16,574	6,025	682	77,841
	1,762,278	228,312	739,351	502,731	227,510	64,374	1,653,127
Compensation costs							
Income maintenance	758,396	116,878	8,956	323,831	283,479	25,252	758,800
Independence allowances	39,792	5,971	18,778	6,655	6,419	1,969	40,965
Lump sums	31,237	4,704	5,758	4,535	10,524	5,716	34,627
Death benefits	89,755	30,344	5,582	30,896	18,493	4,440	96,328
	919,180	157,897	39,074	365,917	318,915	37,377	930,720
Miscellaneous claim costs	(42,291)	(20,219)	(1,738)	(7,381)	(7,090)	(5,863)	19,162
Claims handling costs	330,680	35,184	71,857	124,766	82,703	16,170	315,260
(Decrease) increase in outstanding claims liability							
Expected change	1,134,416	240,115	228,448	335,427	77,060	253,366	943,516
Effect of claims experience and modelling	(1,195,211)	(296,079)	(62,467)	(322,303)	(402,056)	(112,306)	(1,860,325)
Effects of changes in economic assumptions	(1,173,349)	(366,826)	(230,183)	(214,049)	(247,491)	(114,800)	4,875,478
Effect of legislative changes	–	–	–	–	–	–	(72,709)
	(1,234,144)	(422,790)	(64,202)	(200,925)	(572,487)	26,260	3,885,960
Total claims incurred	1,735,703	(21,616)	784,342	785,108	49,551	138,318	6,804,229
Movement in unexpired risk liability	(26,515)	–	–	30,542	(57,057)	–	68,592
Injury prevention costs	22,391	5,001	3,304	4,349	9,737	–	22,971
Other operating costs	84,676	6,343	2,866	26,990	47,710	767	102,243
Surplus (deficit) from underwriting activities	2,898,580	1,062,240	178,176	486,029	916,059	256,076	(2,133,086)

4. Net levy revenue

\$000	Consolidated	
	2013	2012
Levy revenue	4,724,977	4,885,834
(Less):		
Levy debts written off	(12,064)	(7,201)
Fair value movement of levy debtors	1,922	(13,684)
Total net levy revenue	4,714,835	4,864,949

Notes to the financial statements

For the year ended 30 June 2013

5. Net investment income

\$000	Consolidated	
	2013	2012
Investment income		
Rental income from investment properties	10,966	4,780
Income from concession rights arrangement	401	–
Financial assets at fair value through profit or loss (designated upon initial recognition)		
Dividend income	286,514	231,523
Interest income	579,840	545,502
Net realised and unrealised gains (losses) on foreign exchange	102,877	(80,238)
Other net realised and unrealised (losses) gains	1,094,474	630,511
	2,063,705	1,327,298
Financial assets and financial liabilities at fair value through profit or loss (held for trading purposes)		
Interest income	105,524	104,422
Net realised and unrealised gains on foreign exchange	173,314	8,511
Other net realised and unrealised (losses) gains	(263,470)	266,475
	15,368	379,408
Total investment income	2,090,440	1,711,486
Investment costs		
Investment costs	58,744	52,225
Direct expenses from investment properties generating income	1,996	1,734
Total investment costs	60,740	53,959
Total net investment income	2,029,700	1,657,527

Included in investment costs is \$16.3 million (2012: \$15.7 million) for brokerage fees on equity investments.

Investment income is net of foreign withholding tax of \$10.7 million (2012: \$8.0 million).

6. Other income

\$000	Consolidated	
	2013	2012
Sales from rendering of services by subsidiaries	–	1,449
Other income	915	927
Total other income	915	2,376

7. Total income – gross

\$000	Consolidated	
	2013	2012
Levy revenue	4,724,977	4,885,834
Investment income	2,090,440	1,711,486
Other income	915	2,376
Total income	6,816,332	6,599,696

Notes to the financial statements

For the year ended 30 June 2013

8. Claims incurred

\$000	Current year	2013 Prior years	Consolidated			
			Total	Current year	2012 Prior years	Total
Undiscounted	7,685,339	(2,816,717)	4,868,622	7,747,870	(6,789,323)	958,547
Discount movement	(4,149,232)	1,016,313	(3,132,919)	(4,143,830)	9,989,512	5,845,682
Total claims incurred	3,536,107	(1,800,404)	1,735,703	3,604,040	3,200,189	6,804,229

Current year claims relate to risks borne in the current financial year. Prior year claims relate to a reassessment of the claims assumptions (e.g. changes in economic assumptions, risk margin and claims experience) made in all previous financial years and include the effects of discounting caused by changes in discount rate and natural unwinding of the discount, as the claims move one year closer to settlement.

CoverPlus Extra policies

There were payments of \$5.7 million (2012: \$5.2 million) relating to work-related injuries to clients who have purchased weekly compensation under CoverPlus Extra policies from the Work Account during the year. 42,237 (2012: 39,985) CoverPlus Extra policies were purchased during the year.

Non-work injuries payments of \$9.1 million (2012: \$8.9 million) were paid from the Earners' and Motor Vehicle Accounts.

9. Analysis of expenses

(a) Expenses by function

\$000	Consolidated	
	2013	2012
Investment costs	60,740	53,959
Injury prevention costs	22,391	22,971
Operating costs	415,356	418,117
Total expenses¹	498,487	495,047

Notes to the financial statements

For the year ended 30 June 2013

(b) Included in the above are:

\$'000	Consolidated	
	2013	2012
Fees paid to auditors:		
– Audit fees	615	612
– Other services ²	38	51
Board members' and directors' fees	254	325
Rental of office premises	16,781	18,950
Depreciation:		
– Buildings	7	578
– Leasehold improvements	2,712	3,684
– Furniture, fittings and equipment	720	1,070
– Computer equipment	5,653	6,777
– Motor vehicles	860	786
Property, plant and equipment write-offs (back):		
– Computer equipment	(45)	1,987
– Furniture, fittings and equipment	(2)	(2)
– Leasehold improvements	(299)	292
Property, plant and equipment (gain) loss on disposal:		
– Buildings	(1,541)	–
– Freehold improvements	367	4
– Leasehold improvements	294	297
– Furniture, fittings and equipment	–	1
– Computer equipment	36	49
– Motor vehicles	(432)	(797)
Revaluation expense:		
– Buildings	–	277
Amortisation of intangible assets	41,536	36,804
Write-offs of intangible assets	1,000	11,474
(Gain) loss on discontinued operation	–	(467)
(Reversal of) impairment loss in investment in subsidiary	–	(436)
Operating lease equipment rentals	1	11
Bad debts written off - non levy related	25	22
Change in provision for doubtful debts - non levy related	(4)	(53)
Restructuring costs	324	660
Personnel expenditure ³	231,937	223,895

Notes:

- ¹ Total expenses were allocated to Accounts for 2013 using activity-based costing methodology.
- ² Fees paid to auditors for other services include fees for assurance-related services, the provision of technical accounting assistance and recovery costs relating to facilities' hire and staff training.
- ³ Personnel expenditure includes salaries, superannuation, contractors' costs, ACC levies paid and movements in the provision for employee benefits but excluding termination benefits which are included in restructuring costs. The defined contribution superannuation expense for the group was \$12.0 million (2012: \$10.6 million).

Notes to the financial statements

For the year ended 30 June 2013

10. Income tax (credit) expense

(a) Recognised in statement of comprehensive income

\$000	Consolidated	
	2013	2012
Current tax expense		
Current year	–	–
Adjustments for prior years	–	(20)
	–	(20)
Deferred tax expense		
Origination and reversal of temporary differences	–	3
	–	3
Total income tax (credit) in statement of comprehensive income	–	(17)

(b) Reconciliation between tax expense recognised in the statement of comprehensive income and tax (credit) calculated per the statutory income tax rate

\$000	Consolidated	
	2013	2012
Surplus (deficit) before tax	4,929,195	(473,797)
Tax at the statutory rate of 28%	1,380,175	(132,663)
Tax effect of permanent differences:		
ACC net (surplus) deficit not subject to income tax	(1,380,175)	132,658
Other non-deductible items	–	5
	–	–
Adjustments for prior years	–	(20)
Others	–	3
	–	(17)

11. Deferred tax assets and liabilities

\$000	Consolidated	
	2013	2012
Source of deferred tax assets:		
Tax value of loss carry-forwards recognised	–	–
Deferred tax assets	–	–
Movements		
Balance at the beginning of the year	–	137
Recognised in statement of comprehensive income	–	(3)
Tax value of loss (utilised) carried forward	–	(134)
Balance at the end of the year	–	–

Notes to the financial statements

For the year ended 30 June 2013

12. Cash and cash equivalents

\$000	Consolidated	
	2013	2012
Cash at bank	21,391	21,015
Investment operational cash:		
Overnight call deposits	178,665	74,162
Deposits at call	25,257	35,218
New Zealand fixed interest securities	181,471	110,510
Total cash and cash equivalents	406,784	240,905

Investment operational cash is held for the purpose of meeting short-term operational liquidity commitments. The effective interest rate on overnight call deposits at 30 June 2013 was 2.7% (2012: 2.7%). Cash and cash equivalents are designated as financial assets at fair value through profit or loss.

13. Receivables

\$000	Consolidated	
	2013	2012
Self-employed debtors	92,060	85,317
Employer debtors	55,847	110,859
Earners' levy due from Inland Revenue	-	7,875
Motor vehicle levy receivable ⁽ⁱ⁾	56,924	48,948
Non-Earners' appropriation	50,748	-
Total levy receivables	255,579	252,999
Client debtors ⁽ⁱⁱ⁾	3,894	1,658
PAYE receivable ⁽ⁱⁱⁱ⁾	215	380
Unsettled investment transactions	66,121	91,144
Dividends receivable	25,529	20,748
Interest receivable	975	1,180
Prepayments	5,744	5,851
Sundry debtors	6,474	6,360
Total non-levy receivables	108,952	127,321
Total receivables	364,531	380,320
Current	364,509	380,024
Non-current	22	296
Total receivables	364,531	380,320

Notes:

The changes in the provisions for doubtful debts for levy debtors have been charged against levy revenue.

(i) Motor vehicle levy receivable consists of:

- the amount collected by the NZ Transport Agency (NZTA) from motor vehicle licensing that is due to ACC
- the amount collected by the New Zealand Customs Service for the levy portion of the excise duty on petrol that is due to ACC in the first week of the following month.

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For the year ended 30 June 2013

In addition to the above there are levies outstanding from motor vehicle owners. NZTA, in its capacity as collecting agent for ACC from motor vehicle owners, estimates this to be approximately \$21.5 million (2012: \$9.8 million). As ACC is not assured on collection of these levies no accrual has been made.

- (ii) Client debt results when an overpayment on a claim has been recognised and is unable to be repaid immediately.
- (iii) PAYE receivable represents PAYE on client payments subsequently reversed. In most cases this amount is collectable from Inland Revenue.

At 30 June, the ageing analysis of the levy receivables is as follows:

\$000	Consolidated	
	2013	2012
Current	199,667	196,693
Past due 1-30 days	22,127	35,126
Past due 31-60 days	11,361	8,865
Past due >60 days	22,424	12,315
Total	255,579	252,999

Payment arrangements are in place for those receivables that are past due but not considered impaired.

All non-levy receivables that are financial assets are considered to be current and not impaired. The total of current non-levy receivables is \$99.9 million (2012: \$117.8 million).

Receivables that are financial assets are designated as financial assets at fair value through profit or loss (refer Note 1(ac)).

The change in fair value of receivables due to changes in credit risk is an increase of \$1.9 million (2012: decrease of \$13.6 million).

The cumulative change in fair value of receivables due to changes in credit risk is a decrease of \$104.3 million (2012: \$106.2 million).

14. Accrued levy revenue

\$000	Consolidated	
	2013	2012
Motor Vehicle Account	113,966	109,195
Earners' Account	1,247,059	1,223,041
Work Account	1,245,791	1,257,149
Total accrued levy revenue	2,606,816	2,589,385
Current	2,606,816	2,589,385
Non-current	—	—
Total accrued levy revenue	2,606,816	2,589,385

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For the year ended 30 June 2013

15. Investments

ACC holds investments to meet the expected future cash flows arising from the claims liability as follows:

\$'000	Consolidated	
	2013	2012
New Zealand deposits at call	357,728	223,131
New Zealand equities	2,715,302	2,119,149
New Zealand government securities	6,396,360	6,048,846
Other New Zealand debt securities	5,763,323	5,598,465
Australian deposits at call	68,702	132,864
Australian equities	1,343,184	1,249,871
Overseas deposits at call	195,307	248,201
Overseas equities	5,276,100	4,273,356
Overseas debt securities	2,500,348	1,859,090
Total investments	24,616,354	21,752,973
Current	996,015	1,171,087
Non-current	23,620,339	20,581,886
Total investments	24,616,354	21,752,973

Investments are designated as financial assets at fair value through profit or loss (refer Note 1(ac)).

(a) Joint ventures

Included in New Zealand equities is an investment of \$87.4 million (2012: \$85.9 million), which represents ACC's interest in Harbour Quays. Harbour Quays consists of three A grade office buildings within Wellington's Harbour Quays precinct. Each building is held by a separate company, in which ACC holds a convertible note. These convertible notes carry 50% of the voting rights in each company, and will convert to at least a 50% interest in each company. This is a joint venture investment and has been measured at fair value in line with accounting policies.

(b) Repurchase agreement

Securities dealt under repurchase agreements are included within investments classified as financial assets at fair value through profit or loss. These securities are subject to fully collateralised security lending transactions. Cash collateral received of \$705.1 million (2012: \$1,467.1 million) from these transactions is invested, and the liability to repurchase the investments is accrued in unsettled investment transactions.

\$million	Consolidated			
	2013		2012	
	Carrying amount of transferred assets	Carrying amount of associated liabilities	Carrying amount of transferred assets	Carrying amount of associated liabilities
Nature of transaction				
New Zealand equities - repurchase agreements	0.4	0.4	0.2	0.2
New Zealand government securities - repurchase agreements	704.7	715.9	1,466.9	1,480.2
	705.1	716.3	1,467.1	1,480.4

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For the year ended 30 June 2013

16. Derivative financial instruments

Fair value of derivative financial instruments

The fair values of the significant types of derivative financial instrument outstanding as at 30 June 2013 are summarised below:

\$000	Consolidated			
	2013		2012	
	Fair value assets	Fair value liabilities	Fair value assets	Fair value liabilities
Interest rate swaps	163,433	140,416	315,784	9,993
Credit default swaps	809	737	1,099	1,692
Cross-currency interest rate swaps	454	26,181	30,191	7,463
Forward foreign currency contracts	84,614	9,453	18,372	17,672
Futures contracts	5,184	6,606	17,037	7
Options	–	1,398	–	497
Total derivative instruments	254,494	184,791	382,483	37,324
Current	89,798	17,522	35,408	17,679
Non-current	164,696	167,269	347,075	19,645
Total derivative instruments	254,494	184,791	382,483	37,324

Derivative financial assets and liabilities are classified as fair value through profit or loss held for trading.

At balance date, the principal or contract amounts outstanding were:

\$000	Consolidated	
	2013	2012
Interest rate swaps	5,911,707	3,667,864
Credit default swaps	59,553	99,224
Cross-currency interest rate swaps	738,289	1,342,364
Forward foreign currency contracts	4,796,120	2,832,115
Futures contracts - long	340,960	598,308
Futures contracts - short	(648,832)	(192,222)
Options	177,519	92,068

17. Financial risk management policies and objectives

(a) Risk management objectives

Each of ACC's five Accounts divides its investable funds between an investment in ACC's operational cash portfolio and a reserves portfolio specific to that Account. The operational cash portfolio is used to meet operational liquidity requirements. The Accounts' various reserves portfolios allocate their funds between different investment markets (designated 'asset classes') in differing proportions, but all the funds allocated to a particular asset class by the various Accounts are pooled and managed collectively, to ensure operational efficiency and ensure fairness between Accounts. Most asset classes are allocated across several portfolios, often managed by different internal or external portfolio managers.

The market risks to which ACC is primarily exposed are: interest rate risk (primarily changes in New Zealand and United States interest rates); equity market risk, both global and in New Zealand; credit market risk; and currency risk (primarily due to changes in the New Zealand dollar versus major currencies).

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ACC consciously chooses to incur many of these risk exposures through its investment portfolios, either because these risks provide a natural offset to risks inherent in its outstanding claims liability, or because ACC expects to enhance returns through prudent exposure to market risks.

When ACC does not wish to incur risks inherent in its portfolio, it will seek to reduce its exposure to these risks using a variety of methods, including selling investments exposed to these risks, buying investments that carry offsetting risk exposures, or through the use of derivative financial instruments. Market risk is managed for all portfolios under the investment guidelines set out by the Investment Committee by requiring portfolio managers to manage their portfolios within defined market exposure limits. Those limits include limits on the percentage weight of any particular company in the portfolio relative to its benchmark weight; limits on the aggregate investment in companies not represented in the benchmark; limits on the maximum percentage shareholding in any individual company; ratings-related credit limits on both a per-issuer and an aggregate basis; duration limits relative to the duration of the benchmark; and maximum exposure limits to single entities. Compliance with the investment guidelines is reviewed by ACC's Investment Risk and Compliance group on a daily basis and by the internal auditors on a half-yearly basis.

Market risk exposures are measured in a number of ways, specific to the types of risk being measured. In some cases, more than one measure of risk is used, recognising the fact that all forms of investment risk measurement are imperfect.

(b) Market risk

(i) Interest rate risk

The interest rate exposures of the reserves portfolios and the operational cash portfolio are managed through asset allocation between asset classes; through the selection of physical securities within the asset class sub-portfolios; through the use of interest rate swaps within portfolios; and through the use of interest rate swaps as an 'asset allocation overlay'. Other derivative financial instruments may also be used to manage the interest rate exposures of the reserves portfolio and the operational cash portfolio. The Investment Committee has approved investment guidelines and limits for the use of derivatives.

ACC considers the interest rate exposures of its reserves portfolios in the context of the interest rate exposures inherent in the outstanding claims liability of each Account. For each Account, ACC would expect investment gains from declines in interest rates, and investment losses from rises in interest rates, but the corresponding increase or decrease in ACC's claims liabilities as a result of the movements in interest rates would be far more significant than the direct impact that interest rates had on the investment portfolio. Hence, investment gains or losses arising from changes in interest rates will tend to only partially offset a corresponding revaluation of ACC's claims liabilities.

ACC has also used fixed rate receiving positions in interest rate swaps to partially offset the component of the interest rate exposure in its outstanding claims liability that is not offset by the interest rate sensitivity of the underlying investment portfolios (ACC cannot use its investment portfolios to fully offset this interest rate exposure, because the outstanding claims liability is both highly sensitive to interest rates and, for some Accounts, significantly larger than the investment portfolios). These interest rate swap positions are measured as a component of each Account's reserves portfolio.

SENSITIVITY ANALYSIS

The sensitivity analysis in the table below shows how the effects on the consolidated net surplus (deficit) have been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period.

Floating rate instruments expose the group to cash flow interest risk, whereas fixed interest rate instruments expose the group to fair value interest risk.

As at 30 June 2013, if the interest rate at that date had been 1% higher/lower with all other variables remaining constant, the net surplus (deficit) would have moved as per the table below. Any change in the net surplus (deficit) for the period would result in a corresponding movement in equity.

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For the year ended 30 June 2013

Cash flow interest rate risk	Change in interest rate %	2013 Impact on net surplus (deficit) \$000	2012 Impact on net surplus (deficit) \$000
New Zealand dollar interest rates	+1.0	59,344	2,005
New Zealand dollar interest rates	-1.0	(59,344)	(2,005)

Fair value interest rate risk	Change in interest rate %	2013 Impact on net surplus (deficit) \$000	2012 Impact on net surplus (deficit) \$000
Long-term New Zealand dollar interest rates	+1.0	(1,002,960)	(805,593)
Long-term New Zealand dollar interest rates	-1.0	1,166,716	916,196

The above only shows the impacts of changes in interest rate on ACC's investment portfolios. Changes in interest rate also have an impact on the outstanding claims liability. Refer to Note 27(e)(ii) for this sensitivity analysis.

INTEREST RATE SWAP CONTRACTS

Under interest rate swap contracts, ACC agrees to exchange the difference between fixed and floating rate interest payments calculated on agreed notional principal amounts. Such contracts enable ACC to manage its interest rate risk and create synthetic fixed rate bonds from its investment in variable rate debt. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the bank bill and swap curves at the reporting date. The average (fixed) interest rate is based on the outstanding balances at the end of the financial year.

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at the reporting date:

	Average contracted fixed interest rate		Notional amount		Fair value	
	2013	2012	2013	2012	2013	2012
Receive fix/pay floating interest rate swap contracts	%	%	\$000	\$000	\$000	\$000
Less than one year	-	-	-	-	-	-
Between one and two years	-	-	-	-	-	-
Between two and three years	2.52	-	82,657	-	(56)	-
Greater than three years	4.39	4.91	5,829,050	3,667,864	23,073	305,791
			5,911,707	3,667,864	23,017	305,791

The interest rate swap contracts have payments on a quarterly and semi-annual basis. ACC settles the difference between the semi-annual fixed and floating interest rate payments on a net basis.

(ii) Foreign exchange risk

Foreign exchange risk is the risk that the value of ACC's investment portfolio will be adversely affected by a change in foreign exchange rates. ACC is exposed to foreign exchange risk principally due to its holdings of foreign-currency-denominated investments. ACC partially offsets these exposures by entering into foreign currency contracts for forward sales of foreign currencies against the New Zealand dollar and longer-term, cross-currency interest rate swaps.

The Investment Committee establishes neutral 'benchmark' levels of foreign exchange exposure for each Account. These benchmark levels of foreign exchange exposure accord with ACC's high-level objective of finding an appropriate balance between the competing objectives of minimising risk and maximising expected return.

Practically, the Investment Committee has set benchmarks that would require all foreign exchange exposures from the Australian equity portfolio to be hedged, whilst allowing for a portion of non-Australasian portfolio to remain unhedged. This portion of unhedged currency exposures is set as a percentage of the total value of each Account's reserves portfolio, rather

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For the year ended 30 June 2013

than being determined as a simple proportion of the investment in global markets. In each case, the benchmark level of foreign exchange exposure is greater than zero, but lower than the Account's total investment in global bonds and equities. Accordingly, each Account partially hedges its foreign exchange exposure arising from its global equity portfolios.

The Investment Committee allows ACC's internal Investment Unit to vary the actual level of foreign exposure taken by each Account from the benchmark level of foreign exchange exposure, within fixed ranges determined by the Investment Committee. During the year, ACC consistently maintained a higher level of foreign currency exposure than the neutral levels inherent in ACC's benchmarks. This was achieved by undertaking a lower level of foreign exchange hedging than would have been necessary to achieve the benchmark level of foreign exchange exposure.

REPRICING ANALYSIS

All foreign exchange contracts held by ACC have remaining terms of six months or less. While the cross-currency interest rate swaps have maturities out to 12 years, changes in exchange rates lead to cash flows every three months.

SENSITIVITY ANALYSIS

The following sensitivity analysis shows the impact on the consolidated net surplus (deficit) of a change of 10% in the New Zealand dollar against the respective major currencies, with all other variables remaining constant. Any change in the net surplus (deficit) for the period would result in a corresponding movement in equity.

2013 \$000	AUD	USD	EUR	GBP	CHF	JPY	CAD	OTHER
Impact on net surplus (deficit)								
10% increase	(14,992)	(219,907)	(88,934)	(69,499)	(25,478)	(47,001)	(7,736)	(39,277)
10% decrease	18,324	268,775	108,697	84,943	31,140	57,446	9,455	48,006

2012 \$000	AUD	USD	EUR	GBP	CHF	JPY	CAD	OTHER
Impact on net surplus (deficit)								
10% increase	(6,085)	(178,616)	(63,453)	(53,826)	(20,883)	(32,653)	(5,292)	(32,532)
10% decrease	7,437	218,308	77,554	65,787	25,524	39,910	6,468	36,684

(iii) Other price risk

ACC invests in equities and unit trusts from a long-term perspective. Nevertheless, changes in the market price of equity investments:

- will often reflect a true change in the fair value
- affect the value that ACC could realise for these investments if it chose to sell them in the short-term
- will be reflected in the valuation carried in ACC's statement of financial position and the investment income reported in ACC's statement of comprehensive income.

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SENSITIVITY ANALYSIS

The table below details the sensitivity to a change of 10% in the market value of listed and unlisted equity investments to the consolidated net surplus (deficit) at the reporting date, with other variables held constant. Any change in the net surplus (deficit) for the period would result in a corresponding movement in equity.

	Movement %	2013 Impact on net surplus (deficit) \$000	2012 Impact on net surplus (deficit) \$000
Global equities	+10	527,315	426,768
	-10	(527,315)	(426,768)
New Zealand equities	+10	264,329	206,016
	-10	(264,329)	(206,016)
Private equities	+10	9,576	7,257
	-10	(9,576)	(7,257)
Australian equities	+10	132,239	124,198
	-10	(132,239)	(124,198)

(c) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to ACC.

For internally managed portfolios the Investment Committee has approved an authorised set of credit criteria (and in the case of New Zealand banks, an authorised list of bank counterparties) which include credit limits and portfolio limits. Transactions involving many forms of derivative financial instrument are undertaken with authorised banks with which ACC has executed International Swaps and Derivatives Association documentation. Rating information is supplied by independent rating agencies. The riskier a credit (the lower the credit rating, the more likely a default), the lower the approved credit limit. Investment in unrated debt is allowed if approved by ACC's Credit Committee. Under specific criteria approved by the Investment Committee, ACC may invest in limited non-rated securities. An internal rating review generates a Standard & Poor's equivalent credit rating. ACC's exposure and the credit ratings of its counterparties are continually monitored.

The maximum combined debt and equity exposure that ACC may have to any single counterparty within internally managed portfolios, other than the New Zealand Government and certain authorised banks and large local authorities, is 3% of the value of ACC's reserves portfolios.

ACC has a market exposure to changes in how financial markets price credit risk in general across both internally and externally managed portfolios. If financial markets build higher 'credit spreads' into the pricing of non-government debt securities, this will negatively affect the market value of ACC's investment in those securities.

The following table provides information on the credit risk exposure of ACC at 30 June 2013 by grouping securities according to the credit risk ratings of the counterparties. In determining the credit risk ratings the primary source used is Standard & Poor's.

2013 \$000	AAA	AA	A	BBB	Below BBB	Not rated	Total
Cash and cash equivalents	–	383,951	–	22,833	–	–	406,784
Deposits at call	–	462,570	158,988	–	–	179	621,737
Other New Zealand debt securities	1,147,544	3,632,668	493,453	319,589	–	170,069	5,763,323
Overseas debt securities	1,659,044	246,367	151,285	227,622	74,552	141,478	2,500,348
New Zealand government securities	–	6,396,360	–	–	–	–	6,396,360
Interest rate swaps	–	85,052	70,815	–	–	8,020	163,887
Forward foreign currency contracts	–	76,187	8,427	–	–	–	84,614
Receivables	–	38,671	1,654	–	–	319,868	360,193
Accrued levy revenue	–	–	–	–	–	2,606,816	2,606,816
	2,806,588	11,321,826	884,622	570,044	74,552	3,246,430	18,904,062

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For the year ended 30 June 2013

ACC has an additional exposure of \$0.8 million with regard to the credit default swaps above. This is the risk of the underlying entity defaulting on their contractual obligations (2012: \$45.7 million).

2012 \$'000	AAA	AA	A	BBB	Below BBB	Not rated	Total
Cash and cash equivalents	–	185,058	35,996	19,851	–	–	240,905
Deposits at call	–	200,229	403,763	–	–	204	604,196
Other New Zealand debt securities	2,530,081	2,126,729	408,108	225,689	–	307,858	5,598,465
Overseas debt securities	1,311,091	55,228	137,038	167,062	54,916	133,755	1,859,090
New Zealand government securities	–	6,048,846	–	–	–	–	6,048,846
Interest rate swaps	–	244,099	101,877	–	–	–	345,976
Forward foreign currency contracts	–	17,722	650	–	–	–	18,372
Receivables	17	5,427	40,046	3,335	101	325,544	374,470
Accrued levy revenue	–	–	–	–	–	2,589,385	2,589,385
	3,841,189	8,883,338	1,127,478	415,937	55,017	3,356,746	17,679,705

Refer to Note 16 for the maximum exposure to credit risk for derivative financial instruments.

(d) Liquidity risk

Liquidity risk is the risk that the group may not be able to raise cash when required and on acceptable terms. The group maintains sufficient liquid assets to cover obligations and unforeseen expenses.

The table below summarises the maturity profile of the financial liabilities of the group. The amounts disclosed in the table are the contractual undiscounted cash flows.

At 30 June 2013 \$'000	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Greater than 5 years
Payables	993,101	–	–	–
Uncalled private equity commitments	4,188	4,761	8,598	32,738

At 30 June 2012 \$'000	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Greater than 5 years
Payables	1,781,697	–	–	–
Uncalled private equity commitments	9,027	8,893	7,727	24,544

The table below summarises the cash flows for the derivative instruments held. The amounts disclosed in the table are the contractual undiscounted cash flows.

At 30 June 2013 \$'000	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Greater than 5 years
Derivative financial instruments	187,698	114,696	326,668	366,408

At 30 June 2012 \$'000	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Greater than 5 years
Derivative financial instruments	107,346	89,313	255,720	250,862

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(e) Fair values

The fair values of financial instruments as mentioned in the summary of significant accounting policies are summarised as follows:

- the fair value of investments with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market bid-prices
- the fair value of derivative instruments is calculated using quoted bid-yields. Where such yields are not available, use is made of discounted cash flow analysis using an applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives
- the fair value of holdings in unlisted equity investments (private equity and venture capital) is the fair value at the initial cost of investment and is adjusted for performance of the business and changes in equity market conditions, since inception date. This is consistent with the 'International Private Equity and Venture Capital Valuation Guidelines'
- the carrying value less impairment provision of receivables and payables approximates their fair values
- for investments with no active market, fair values are determined using valuation techniques. Such techniques include arm's-length transactions, reference to the current market value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models, making as much use of available and supportable market data as possible and keeping judgemental inputs to a minimum.

Securitised assets

ACC has exposure to securitised assets for which there is currently no active market. Accordingly, the fair value of these instruments is established based on valuation techniques utilising the latest market information available from trustees, fund managers, brokers and other market participants.

At 30 June 2013 ACC held \$8.3 million (2012: \$21.6 million) of residential mortgage-backed bonds originated by Property Finance Securities for which there is no market price. This investment was reduced predominantly by the amount of principal pass through. The fair value applied to this investment at 30 June 2013 is based on a valuation methodology that calculates a price based on an average independent market valuation of similar non-bank mortgage-backed bonds rated AAA and AA with a similar weighted average life and collateral characteristics. Any additional illiquidity compared with other instruments for which there are market valuations is not considered to have a material effect on the fair value.

At 30 June 2013 ACC held \$26.9 million (2012: \$35.8 million) of commercial mortgage-backed bonds originated by Property Finance Securities for which there is no market price. This investment was reduced predominantly by the amount of principal pass through. The fair value applied to this investment at 30 June 2013 is based on a valuation methodology that calculates a price based on the market price of a senior bond secured by commercial properties. Any additional illiquidity compared with other instruments for which there are market valuations is not considered to have a material effect on the fair value.

At 30 June 2013 ACC held \$18.2 million (2012: \$24.0 million) of residential mortgage-backed bonds issued by Challenger NZ Millennium Series 2007-AP Trust for which there is no market price. This investment was reduced predominantly by the amount of principal pass through. The fair value applied to this investment at 30 June 2013 is based on a valuation methodology that calculates a price based on an independent market valuation of similar non-bank mortgage-backed bonds rated AAA. Any additional illiquidity compared with other instruments for which there are market valuations is not considered to have a material effect on the fair value.

At 30 June 2013 ACC held \$nil (2012: \$47.5 million) of reverse mortgage-backed bonds originated by Property Finance Securities. This investment was realised during the year.

At 30 June 2013 ACC held \$18.5 million (2012: \$30.7 million) of residential mortgage-backed bonds issued by Liberty NZ Series 2007-1 trusts for which there is no market price. This investment was reduced predominantly by the amount of principal pass through. The fair value applied to this investment at 30 June 2013 is based on a valuation methodology that calculates a price based on an average independent market valuation of similar non-bank mortgage-backed bonds rated AAA with a similar

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weighted average life and collateral characteristics. Any additional illiquidity compared with other instruments for which there are market valuations is not considered to have a material effect on the fair value.

These instruments represent 0.51% (2012: 1.2%) of the \$14,044 million (2012: \$13,149 million) of ACC's in-house managed debt security funds in aggregate across all debt security portfolios held at 30 June 2013.

(f) Fair value hierarchy

All financial instruments are classified as financial assets at fair value through profit or loss, other than payables which are classified as financial liabilities measured at amortised cost.

The financial instruments are categorised further into three levels of fair value measurement:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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As at 30 June 2013		Consolidated		
\$000	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments				
Interest rate swaps	–	163,433	–	163,433
Credit default swaps	–	809	–	809
Cross-currency swaps	–	454	–	454
Forward foreign currency contracts	–	84,614	–	84,614
Futures	5,184	–	–	5,184
	5,184	249,310	–	254,494
Financial assets designated at fair value through profit or loss				
New Zealand equities	2,510,240	–	205,062	2,715,302
New Zealand government securities	–	6,396,360	–	6,396,360
New Zealand debt securities	–	5,709,891	53,432	5,763,323
Australian equities	1,303,181	20,976	19,027	1,343,184
Overseas equities	5,273,145	–	2,955	5,276,100
Overseas debt securities	–	2,500,348	–	2,500,348
	9,086,566	14,627,575	280,476	23,994,617
	9,091,750	14,876,885	280,476	24,249,111
Financial liabilities				
Derivative financial instruments				
Interest rate swaps	–	(140,416)	–	(140,416)
Credit default swaps	–	(737)	–	(737)
Cross-currency swaps	–	(26,181)	–	(26,181)
Forward foreign currency contracts	–	(9,453)	–	(9,453)
Futures	(6,606)	–	–	(6,606)
Options	–	(1,398)	–	(1,398)
	(6,606)	(178,185)	–	(184,791)

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As at 30 June 2012		Consolidated		
\$000	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments				
Interest rate swaps	–	315,784	–	315,784
Credit default swaps	–	1,099	–	1,099
Cross-currency swaps	–	30,191	–	30,191
Forward foreign currency contracts	–	18,372	–	18,372
Futures	17,037	–	–	17,037
	17,037	365,446	–	382,483
Financial assets designated at fair value through profit or loss				
New Zealand equities	2,033,651	9,069	76,429	2,119,149
New Zealand government securities	–	6,048,846	–	6,048,846
New Zealand debt securities	–	5,351,610	246,855	5,598,465
Australian equities	1,230,057	15,866	3,948	1,249,871
Overseas equities	4,243,436	–	29,920	4,273,356
Overseas debt securities	–	1,856,976	2,114	1,859,090
	7,507,144	13,282,367	359,266	21,148,777
	7,524,181	13,647,813	359,266	21,531,260
Financial liabilities				
Derivative financial instruments				
Interest rate swaps	–	(9,993)	–	(9,993)
Credit default swaps	–	(1,692)	–	(1,692)
Cross-currency swaps	–	(7,463)	–	(7,463)
Forward foreign currency contracts	–	(17,672)	–	(17,672)
Futures	(7)	–	–	(7)
Options	–	(497)	–	(497)
	(7)	(37,317)	–	(37,324)

Transfer between categories

There were no transfers between Levels 1 and 2 during the year.

Reconciliation of Level 3 fair value movements

\$000	Consolidated	
	2013	2012
Opening balance	359,266	327,953
Total gains (losses) recognised in surplus or deficit	22,146	12,565
Total gains (losses) recognised in other comprehensive income	–	–
Purchases	45,722	111,873
Sales	(101,992)	(94,290)
Interest	371	1,389
Issues	–	–
Settlements	–	–
Transfers into Level 3	10,987	235
Transfers out of Level 3	(56,024)	(459)
Closing balance	280,476	359,266
Total gains (losses) stated on Level 3 instruments still held at balance date	(17,128)	(36,449)

The securitised assets in Level 3 are valued using a market standard floating rate note calculator. Weighted average lives (WALs) and credit spreads can influence the fair value if a reasonable alternative assumption is applied.

Notes to the financial statements

For the year ended 30 June 2013

The table below summarises the fair value impacts on the total fair value of Level 3 securities by using:

- (i) Lower WAL (WAL times 0.75) and higher WAL (WAL times 1.25), i.e. varying the WAL by 25%
- (ii) Lower credit spread (credit spread less 1%) and higher credit spread (credit spread plus 1%), i.e. using credit spread plus or minus 1%.

Impact on fair value of Level 3 (%)	2013	2012
Variable used in valuation:		
Higher WAL (WAL times 1.25)	(0.30)	(0.76)
Lower WAL (WAL times 0.75)	0.34	0.84
Higher credit spread (credit spread plus 1%)	(0.46)	(1.31)
Lower credit spread (credit spread less 1%)	0.48	1.41

Other securities in Level 3 are considered not to have a material effect on fair value if alternative reasonable assumptions were used to obtain their fair values.

The above information does not include cash and cash equivalents, deposits at call and receivables that are also designated as financial assets at fair value through profit or loss. These financial instruments are categorised as Level 3 financial instruments.

There were no transfers in and out of Level 3 during the year for these financial instruments.

Refer to the statement of cash flows for fair value movements in cash and cash equivalents. Refer to Note 13 for fair value movements in receivables and notes 12 and 15 for fair value movements in deposits at call.

18. Investment properties

\$000	Consolidated		
	Land	Buildings	Total
Opening balance as at 1 July 2011	9,350	21,700	31,050
Net (losses) from revaluations	-	(3,850)	(3,850)
Closing balance as at 30 June 2012	9,350	17,850	27,200
Opening balance as at 1 July 2012	9,350	17,850	27,200
Additions	86,058	45,058	131,116
Net gains (losses) from revaluations	8,511	(6,437)	2,074
Closing balance as at 30 June 2013	103,919	56,471	160,390

The investment properties are recognised at fair value, which is based on the market value. The market valuations have been determined by members of the New Zealand Institute of Valuers, who are independent valuers of the firm CB Richard Ellis Limited. The properties are valued under a combination of the capitalisation approach, discounted cash flow method and direct comparisons with prices for properties of a similar nature.

Notes to the financial statements

For the year ended 30 June 2013

19. Investment intangible asset

During the year, ACC purchased an assignment of concession deed and business assets for \$56.0 million. The period of the concession deed is up to 16 September 2037.

\$000	Consolidated	
	2013	2012
Year ended 30 June 2013		
Opening net carrying amount	–	–
Additions	56,000	–
Amortisation charge	(400)	–
Closing net carrying amount	55,600	–
At 30 June 2013		
At cost	56,000	–
Accumulated amortisation	(400)	–
Net carrying amount at 30 June 2013	55,600	–

20. Investment in subsidiary

The consolidated financial statements include the financial statements of ACC and the subsidiary listed in the following table:

Name	Country of incorporation	% equity interest		Investment		
		2013	2012	2013 \$	2012 \$	Balance date
Shamrock Superannuation Limited	New Zealand	100	100	100	100	30 June

Shamrock Superannuation Limited acts as the corporate trustee for the ACC Superannuation Scheme.

Notes to the financial statements

For the year ended 30 June 2013

21. Property, plant and equipment

Consolidated

\$000	Land	Buildings	Leasehold improvements	Furniture, fittings and equipment	Computer equipment	Motor vehicles	Total
At 1 July 2011							
At cost	4,530	23,670	41,363	25,834	117,288	6,402	219,087
Accumulated depreciation	–	(19,555)	(26,037)	(23,287)	(83,129)	(4,553)	(156,561)
Net carrying amount at 1 July 2011	4,530	4,115	15,326	2,547	34,159	1,849	62,526
Year ended 30 June 2012							
Opening net carrying amount	4,530	4,115	15,326	2,547	34,159	1,849	62,526
Additions	–	4	3,314	84	376	1,603	5,381
Revaluation (decrease)	(667)	(1,667)	–	–	–	–	(2,334)
Depreciation charge	–	(578)	(3,684)	(1,070)	(6,777)	(786)	(12,895)
Other (includes disposals)	–	(4)	(749)	45	(265)	(116)	(1,089)
Disposal of subsidiary	–	–	–	(15)	(42)	–	(57)
Closing net carrying amount	3,863	1,870	14,207	1,591	27,451	2,550	51,532
At 30 June 2012							
At cost	3,863	21,201	35,616	22,154	76,410	5,469	164,713
Accumulated depreciation	–	(19,331)	(21,409)	(20,563)	(48,959)	(2,919)	(113,181)
Net carrying amount at 30 June 2012	3,863	1,870	14,207	1,591	27,451	2,550	51,532
Year ended 30 June 2013							
Opening net carrying amount	3,863	1,870	14,207	1,591	27,451	2,550	51,532
Additions	–	–	1,048	550	250	1,315	3,163
Revaluation (decrease)	(23)	2	–	–	–	–	(21)
Depreciation charge	–	(7)	(2,712)	(720)	(5,653)	(860)	(9,952)
Other (includes disposals)	(3,740)	(1,586)	(294)	23	(60)	(91)	(5,748)
Closing net carrying amount	100	279	12,249	1,444	21,988	2,914	38,974
At 30 June 2013							
At cost	100	889	36,156	23,010	79,376	5,275	144,806
Accumulated depreciation	–	(610)	(23,907)	(21,566)	(57,388)	(2,361)	(105,832)
Net carrying amount at 30 June 2013	100	279	12,249	1,444	21,988	2,914	38,974

(a) Freehold land and buildings carried at fair value

ACC owns a freehold property, a house in Greymouth valued on 30 November 2012 at a market value of \$385,000. ACC holds its freehold premises as capital assets for long-term ownership, not as investment properties. The valuation was completed by Coast Valuations Limited, an independent registered public valuer. The direct comparison approach whereby sales of similar residential properties are compared was used as the basis of the valuation.

The carrying amount of land and buildings had they been recognised under the cost model is as follows:

\$000	Consolidated	
	2013	2012
Freehold land	81	457
Buildings	234	3,660

ACC also owned a freehold property, Shamrock House in Wellington at 30 June 2012, which was disposed of for \$6.5 million in November 2012.

Notes to the financial statements

For the year ended 30 June 2013

(b) Impairment

The carrying amounts of all property, plant and equipment are reviewed on an ongoing basis. Any impairments in value are recognised immediately.

No impairment losses were reversed during this or in the previous year.

22. Intangible assets

Consolidated

\$000	Internally generated computer software	Acquired computer software	Total
At 1 July 2011			
At cost	356,490	19,970	376,460
Accumulated amortisation	(224,236)	(18,250)	(242,486)
Accumulated impairment	(1,231)	–	(1,231)
Net carrying amount at 1 July 2011	131,023	1,720	132,743
Year ended 30 June 2012			
Opening net carrying amount	131,023	1,720	132,743
Additions	34,991	–	34,991
Impairment losses and write-offs	(11,474)	–	(11,474)
Amortisation charge	(36,795)	(9)	(36,804)
Other (includes disposals)	347	(1,711)	(1,364)
Disposal of subsidiary	(196)	–	(196)
Closing net carrying amount	117,896	–	117,896
At 30 June 2012			
At cost	378,336	18,132	396,468
Accumulated amortisation	(260,440)	(18,132)	(278,572)
Accumulated impairment	–	–	–
Net carrying amount at 30 June 2012	117,896	–	117,896
Year ended 30 June 2013			
Opening net carrying amount	117,896	–	117,896
Additions	39,104	–	39,104
Impairment losses and write-offs	(1,000)	–	(1,000)
Amortisation charge	(41,536)	–	(41,536)
Other (includes disposals)	–	–	–
Closing net carrying amount	114,464	–	114,464
At 30 June 2013			
At cost	362,107	11,348	373,455
Accumulated amortisation	(246,643)	(11,348)	(257,991)
Accumulated impairment	(1,000)	–	(1,000)
Net carrying amount at 30 June 2013	114,464	–	114,464

(a) Impairment and write-offs

The carrying amounts of all intangible assets are reviewed on an ongoing basis. Any impairments in value are recognised immediately. Impairment losses and write-offs of \$1.0 million were recognised for the year ended 30 June 2013 (2012: \$11.5 million).

Notes to the financial statements

For the year ended 30 June 2013

(b) EOS Client Management System

ACC's major intangible asset is the EOS Client Management System, which is the primary system used by ACC to manage clients and their claims. It had a net carrying value as at 30 June 2013 of \$45.4 million (2012: \$56.5 million). There are between three and seven years remaining in amortisation.

23. Payables and accrued liabilities

\$'000	Consolidated	
	2013	2012
Unsettled investment transactions	936,962	1,727,165
PAYE and earnings-related deductions	2,097	7,147
Claims expenditure	141,670	136,293
Occupational safety and health	936	2,010
Sundry creditors	3,859	4,137
Levies overpaid by Inland Revenue	12,540	–
Non-Earners' appropriation refund	–	22,729
GST	21,897	31,809
Other accrued expenditure	51,550	40,741
Total payables and accrued liabilities	1,171,511	1,972,031
Current	1,171,511	1,972,031
Non-current	–	–
Total payables and accrued liabilities	1,171,511	1,972,031

All payables that are financial liabilities are classified as financial liabilities measured at amortised cost.

24. Provisions

\$'000	Consolidated	
	2013	2012
Employee benefits	36,037	32,793
Restructuring	–	159
Leasehold restoration	1,835	2,359
Interest on weekly compensation payments	15,003	14,787
Compensation and rehabilitation costs	14,900	14,700
Onerous contracts	1,454	2,446
Total provisions	69,229	67,244
Current	58,534	57,684
Non-current	10,695	9,560
Total provisions	69,229	67,244

Notes to the financial statements

For the year ended 30 June 2013

Movements in provisions

The movement for each class of provision is set out below.

(a) Employee benefits

\$000	Consolidated	
	2013	2012
Opening balance	32,793	29,191
Paid out during the year	(29,203)	(25,672)
Additional provision made during the year	33,315	30,141
Reversal of unused provision	(868)	(692)
Disposal of subsidiary	–	(175)
Closing balance	36,037	32,793

Refer to Note 1(x) for the relevant accounting policy.

(b) Restructuring

\$000	Consolidated	
	2013	2012
Opening balance	159	837
Paid out during the year	(484)	(1,364)
Provision made during the year	325	686
Closing balance	–	159

There was restructuring made during the 2012 year to align to the current business model of ACC. The provision represents the estimated costs of redundancy payments arising from the restructure.

(c) Leasehold restoration

\$000	Consolidated	
	2013	2012
Opening balance	2,359	2,419
Additional provision made during the year	40	974
Reversal of unused provision	(564)	(986)
Disposal of subsidiary	–	(48)
Closing balance	1,835	2,359

Under certain lease agreements, at the end of the lease terms ACC is required to restore leasehold properties to their condition as at the commencement of the leases. A provision for the costs of doing this has been made accordingly.

(d) Interest on weekly compensation

\$000	Consolidated	
	2013	2012
Opening balance	14,787	14,492
Provision made during the year	216	295
Closing balance	15,003	14,787

Notes to the financial statements

For the year ended 30 June 2013

This provision was made as a result of a decision from the Court of Appeal that affects ACC's liability to pay interest for persons whose weekly compensation was stopped during the periods of the Accident Compensation Act 1972, Accident Compensation Act 1982 and Accident Rehabilitation and Compensation Insurance Act 1992, but was later reinstated.

(e) Compensation and rehabilitation costs

\$000	Consolidated	
	2013	2012
Opening balance	14,700	–
Provision made during the year	200	14,700
Closing balance	14,900	14,700

This provision was made as a result of a decision from the Supreme Court of New Zealand, which held that an impregnation resulting from a medical misadventure, in the form of a negligently performed sterilisation operation, was a personal injury for which cover was available under the AC Act.

(f) Onerous contracts

\$000	Consolidated	
	2013	2012
Opening balance	2,446	–
Paid out during the year	(1,291)	–
Provision made during the year	299	2,446
Closing balance	1,454	2,446

ACC has three non-cancellable leases for office space that has been vacated due to earthquake risk. The leases do not expire until 31 January 2016, 21 October 2014 and 31 July 2013 and are unlikely to be able to be sub-let. A provision has been recognised for the obligation of the future lease payments. In 2012 there was also a provision recognised for unavoidable costs arising from the termination of the supply of information and communications technology services with the incumbent supplier at that time.

25. Unearned levy liability

\$000	2013 Total	Motor Vehicle Account	Earners' Account	Work Account	2012 Total
Opening balance at 1 July	2,183,444	383,676	1,102,341	697,427	2,428,524
Deferral of levies recognised in the year	2,241,710	396,485	1,144,857	700,368	2,183,444
Earnings of levies recognised in previous years	(2,183,444)	(383,676)	(1,102,341)	(697,427)	(2,428,524)
Closing balance at 30 June	2,241,710	396,485	1,144,857	700,368	2,183,444
Current	2,241,379	396,154	1,144,857	700,368	2,183,233
Non-current	331	331	–	–	211
Total unearned levy liability	2,241,710	396,485	1,144,857	700,368	2,183,444

Notes to the financial statements

For the year ended 30 June 2013

26. Unexpired risk liability

\$000	2013 Total	Motor Vehicle Account	Earners' Account	Work Account	2012 Total
Opening balance at 1 July	68,592	–	11,535	57,057	–
Recognition of additional unexpired risk liability in the period	42,077	–	42,077	–	68,592
Release of unexpired risk liability recorded in previous periods	(68,592)	–	(11,535)	(57,057)	–
Closing balance at 30 June	42,077	–	42,077	–	68,592
Calculation of deficiency					
Unearned levy liability as reported in statement of financial position	2,241,710	396,485	1,144,857	700,368	2,183,444
Adjustment (i)	–	–	–	–	(338,827)
Adjusted unearned levy liability	2,241,710	396,485	1,144,857	700,368	1,844,617
Central estimate of present value of expected future cash flows arising from future claims	1,651,944	177,015	1,020,298	454,631	1,596,435
Risk margin	286,753	40,737	166,636	79,380	276,736
Present value of expected future cash flows for future claims	1,938,697	217,752	1,186,934	534,011	1,873,171
Deficiency (surplus)	(303,013)	(178,733)	42,077	(166,357)	28,554
Adjustment for surplus in Account (ii)	345,090	178,733	–	166,357	40,038
Total unexpired risk liability	42,077	–	42,077	–	68,592
Current	42,077	–	42,077	–	68,592
Non-current	–	–	–	–	–
Total unexpired risk liability	42,077	–	42,077	–	68,592

Notes:

- In 2012 an adjustment was made to the reported unearned levy liability to exclude the portion that was used to fund residual claims in the calculation of deficiency. This approach was changed in 2013 to include the residual levy as the liabilities that are assessed include the residual claims.
- If the liability adequacy test performed for each Account shows that there is no deficiency in the levies, the unexpired risk liability is zero for that Account. The liability adequacy test shows that there was a deficiency in levies in the Earners' Account but none for the Motor Vehicle and Work Accounts in 2013.

A liability adequacy test was not performed for the Non-Earners' Account as there was no unearned levy liability as at 30 June 2013 for this Account. The unexpired risk liability for the Earners' Account includes the earners' portion of treatment injury.

Notes to the financial statements

For the year ended 30 June 2013

Risk margin

The process for determining the overall risk margin, including the way in which the diversification of risks has been allowed for, is discussed in Note 27(a). The overall risk margin is intended to achieve a 75% probability of sufficiency.

Risk margins applied by Account are as follows:

	2013	2012
Motor Vehicle	24.2%	24.2%
Earners'	15.9%	15.9%
Work	19.1%	19.1%
Treatment Injury	25.9%	25.9%
Overall margin (weighted average)	18.2%	18.0%

The risk margins determined for the unexpired risk liability relate to future claims payments for injuries that have yet to happen. Because of the higher level of uncertainty, they are generally higher than the risk margins determined for the outstanding claims liability.

27. Outstanding claims

(a) Outstanding claims liability (discounted)

\$'000	30 June 2013 total	Motor Vehicle Account	Non- Earners' Account	Earners' Account	Work Account	Treatment Injury Account	30 June 2012 total
Rehabilitation							
Medical treatment	1,806,012	228,331	588,214	527,638	358,137	103,692	1,958,849
Rehabilitation	13,340,518	4,223,422	3,212,098	1,896,241	1,817,131	2,191,626	13,575,895
	15,146,530	4,451,753	3,800,312	2,423,879	2,175,268	2,295,318	15,534,744
Compensation							
Income maintenance	6,249,366	1,756,640	379,891	1,688,243	1,992,408	432,184	6,894,843
Impairment benefits	979,232	162,413	431,868	163,130	149,636	72,185	1,059,061
	7,228,598	1,919,053	811,759	1,851,373	2,142,044	504,369	7,953,904
Central estimate of present value of future claims payments	22,375,128	6,370,806	4,612,071	4,275,252	4,317,312	2,799,687	23,488,648
Present value of the operating costs of meeting these claims	1,671,217	439,786	258,628	350,442	483,056	139,305	1,657,299
Bulk billed costs	8,846	1,052	5,466	1,741	542	45	8,171
	24,055,191	6,811,644	4,876,165	4,627,435	4,800,910	2,939,037	25,154,118
Risk margin	3,107,060	912,760	672,911	513,645	575,706	432,038	3,242,277
Outstanding claims liability	27,162,251	7,724,404	5,549,076	5,141,080	5,376,616	3,371,075	28,396,395
As at the beginning of the year	28,396,395	8,147,194	5,613,278	5,342,005	5,949,103	3,344,815	24,510,435
Movement during the year	(1,234,144)	(422,790)	(64,202)	(200,925)	(572,487)	26,260	3,885,960
Weighted average term to settlement	15 yrs 11 mths	16 yrs 7 mths	19 yrs 5 mths	13 yrs 5 mths	10 yrs 8 mths	22 yrs 3 mths	15 yrs 10 mths

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For the year ended 30 June 2013

Risk margin

ACC has added a risk margin to the central estimate of the discounted future claims payments to provide for a higher degree of certainty that the liability for outstanding claims, at balance date, will be adequate to cover possible adverse developments.

The overall risk margin was determined allowing for the relative uncertainty of the outstanding claims estimate. Uncertainty was analysed for each benefit type, taking into account potential uncertainties relating to the claims experience, the insurance environment, and the impact of legislative reform.

The assumptions regarding uncertainty were applied to the central estimate in order to arrive at an overall provision that allows for a 75% probability of sufficiency in meeting the actual amount of liability to which it relates.

Risk margins applied by Account are as follows:

	2013	2012
Motor Vehicle	13.4%	13.4%
Non-Earners'	13.8%	13.8%
Earners'	11.1%	11.1%
Work	12.0%	12.0%
Treatment Injury	14.7%	14.7%
Overall margin (weighted average)	12.9%	12.9%

(b) Reconciliation of movement in discounted outstanding claims liability

The following analysis reconciles the year-on-year movement of the actuarially assessed outstanding claims liability by the key drivers of the movement.

The broad definition of each movement category is:

- (i) Inflation assumptions - external assumptions made concerning inflationary factors that include Labour Cost Inflation, Average Wage Inflation, the CPI and risk free discount rates
- (ii) Discount rates – estimated future cash payments, which are adjusted in line with expectations of future inflation, are discounted using a risk free rate that is based on the yield curves of New Zealand government bond rates
- (iii) Claims experience and modelling - changes to actuarial assumptions and/or modelling methods, for example claims 'run-off' patterns, to reflect actual experience and/or future events that may have an impact on the number and size of claims
- (iv) Payments experience - the difference between actual and projected payments
- (v) Legislative changes – involving improved modelling of historical legislative changes relating to entitlements for surviving spouses and claims involving suicide
- (vi) Discount unwind - as prior claims move one year closer to the date of expected payment, the reduction in the number of years over which discounting takes place is termed the discount unwind
- (vii) Claims anticipated over the year - the expected claim costs arising from new accidents in the year to 30 June 2013. The cost is the present value of projected payments post 30 June 2013 plus the expected payments to be made in the year ended 30 June 2013
- (viii) Claims payments and handling costs - the actual claims paid and the actual claims handling costs incurred in the year ended 30 June 2013.

Notes to the financial statements

For the year ended 30 June 2013

\$000	30 June 2013 total	Motor Vehicle Account	Non- Earners' Account	Earners' Account	Work Account	Treatment Injury Account	30 June 2012 total
Outstanding claims brought forward	28,396,395	8,147,194	5,613,278	5,342,005	5,949,103	3,344,815	24,510,435
Effect of changes in inflation assumptions	(234,248)	(67,170)	(51,091)	(42,141)	(44,654)	(29,192)	(209,289)
Effect of changes in discount rates	(939,101)	(299,656)	(179,092)	(171,908)	(202,837)	(85,608)	5,084,767
Effect of claims experience and modelling	(1,195,211)	(296,079)	(62,467)	(322,303)	(402,056)	(112,306)	(1,860,325)
Effect of payments experience	(492,627)	(109,989)	(87,034)	(124,952)	(140,886)	(29,766)	(600,278)
Effect of legislative changes	–	–	–	–	–	–	(72,709)
Effect of discount unwind	682,895	193,090	132,195	121,412	156,510	79,688	737,308
Claims anticipated over the year	3,913,995	558,188	1,031,831	1,325,000	683,474	315,502	3,724,755
Incurred claims recognised in the underwriting result	1,735,703	(21,616)	784,342	785,108	49,551	138,318	6,804,229
Claims payments and handling costs	(2,969,847)	(401,174)	(848,544)	(986,033)	(622,038)	(112,058)	(2,918,269)
Outstanding claims carried forward	27,162,251	7,724,404	5,549,076	5,141,080	5,376,616	3,371,075	28,396,395

The expected cash flows for 2013 in the above table now include Public Health Acute Services. The comparatives for 2012 have been changed accordingly.

(c) Reconciliation of undiscounted claims to liability for outstanding claims

\$000	30 June 2013 total	Motor Vehicle Account	Non- Earners' Account	Earners' Account	Work Account	Treatment Injury Account	30 June 2012 total
Liability for outstanding claims - undiscounted	71,296,430	19,557,419	18,102,635	11,071,786	8,319,262	14,245,328	69,817,572
Liability for claims handling costs - undiscounted	3,513,009	992,008	658,668	638,651	848,924	374,758	3,333,858
Discount to present value - outstanding claims	(48,912,456)	(13,185,561)	(13,485,098)	(6,794,793)	(4,001,408)	(11,445,596)	(46,320,754)
Discount to present value - claims handling costs	(1,841,792)	(552,222)	(400,040)	(288,209)	(365,868)	(235,453)	(1,676,558)
Liability for outstanding claims - discounted	22,383,974	6,371,858	4,617,537	4,276,993	4,317,854	2,799,732	23,496,818
Liability for claims handling costs - discounted	1,671,217	439,786	258,628	350,442	483,056	139,305	1,657,300
Total outstanding claims liability - discounted	24,055,191	6,811,644	4,876,165	4,627,435	4,800,910	2,939,037	25,154,118
Risk margin	3,107,060	912,760	672,911	513,645	575,706	432,038	3,242,277
Total outstanding claims liability with risk margin	27,162,251	7,724,404	5,549,076	5,141,080	5,376,616	3,371,075	28,396,395
Current	2,037,852	397,307	345,192	618,298	538,307	138,748	1,994,898
Non-current	25,124,399	7,327,097	5,203,884	4,522,782	4,838,309	3,232,327	26,401,497
Total outstanding claims liability with risk margin	27,162,251	7,724,404	5,549,076	5,141,080	5,376,616	3,371,075	28,396,395

Notes to the financial statements

For the year ended 30 June 2013

(d) Claims development table

The following table shows the development of undiscounted claims cost estimates for the seven most recent accident years.

Accident year \$000	2007	2008	2009	2010	2011	2012	2013	Total
Estimate of ultimate claim costs:								
At end of accident year	4,188,671	5,846,780	7,475,576	7,413,941	7,917,473	7,294,677	7,225,403	
One year later	5,190,490	7,060,906	7,113,381	7,125,564	6,696,815	6,545,515	–	
Two years later	6,182,093	6,821,470	7,093,849	6,325,494	6,301,301	–	–	
Three years later	6,265,775	6,763,495	6,425,515	6,109,996	–	–	–	
Four years later	6,552,411	6,087,633	5,965,204	–	–	–	–	
Five years later	6,090,154	5,837,230	–	–	–	–	–	
Six years later	5,876,479	–	–	–	–	–	–	
Current estimate of cumulative claim costs	5,876,479	5,837,230	5,965,204	6,109,996	6,301,301	6,545,515	7,225,403	43,861,128
Cumulative payments	(2,014,417)	(2,136,803)	(2,039,007)	(1,734,816)	(1,632,827)	(1,552,805)	(1,157,598)	(12,268,273)
Outstanding claims - undiscounted	3,862,062	3,700,427	3,926,197	4,375,180	4,668,474	4,992,710	6,067,805	31,592,855
				Discount				(22,449,772)
				Claims handling costs				1,883,157
				2006 and prior claims				16,120,594
				Short tail outstanding claims				15,417
				Outstanding claims - per statement of financial position				27,162,251

The cumulative claim costs for the 2013 accident year now include Public Health Acute Services. The claim costs for all the previous accident years in the above table have been changed to reflect this.

(e) Key assumptions

Liabilities exist in respect of:

Claims

Claims notified and accepted in the current and previous years, but which will not be fully met until future years; and claims incurred but not notified to, or accepted by, ACC at balance date.

Gradual process claims

Under the AC Act, the injury date for gradual process claims is when the injured party first seeks treatment related to the injury. Given the lag in time for such injuries to manifest and difficulties identifying an actual date of injury, the actual exposure period is not the injury date. For these claims the outstanding claims liability carries uncertainty associated with clients who have sought treatment but have not yet reported claims to ACC. However, the outstanding claims liability does not cover future payments on claims to injured parties on gradual process claims who have not yet sought treatment as the liability to ACC does not accrue until the claims are made, being the dates of treatment.

Actuarial estimate

An independent actuarial estimate by PricewaterhouseCoopers, consulting actuary, has been made of the future expenditure relating to accidents that occurred prior to balance date, whether or not the claims have been reported to or accepted by ACC. The PricewaterhouseCoopers actuarial report is signed by Mr Paul Rhodes, Fellow of the Institute and Faculty of Actuaries (UK), and Mr Chris Latham, a Fellow of the Institute of Actuaries of Australia. Mr Rhodes and Mr Latham are also Fellows of the New Zealand Society of Actuaries.

The actuarial estimate has been made based on actual experience to 30 June 2013. The calculation of the outstanding claims liability has been made in accordance with the standards of the New Zealand Society of Actuaries' Professional Standard No.4: General Insurance Business and NZ IFRS 4: Insurance Contracts.

Notes to the financial statements

For the year ended 30 June 2013

In determining the actuarial estimate, the independent actuaries have relied upon information supplied by ACC. The independent actuaries have indicated they are satisfied as to the nature, sufficiency and accuracy of the information provided.

The above table in Note 27(a), outstanding claims liability (discounted), shows the actuarial estimate of the present value of the outstanding claims liability that will be payable in future years. The actual outcome is likely to range about this estimate and, like any such forecast, is subject to uncertainty.

The main long-term assumptions used in the above estimates are:

	2013		2012	
	Year 1 % p.a.	Beyond Year 1 % p.a.	Year 1 % p.a.	Beyond Year 1 % p.a.
1. Discount rate	2.71%	3.14% to 5.50%	2.43%	2.47% to 6.00%
2. Inflation rates:				
weekly compensation	3.0%	3.3% to 3.5%	3.0%	3.3% to 3.5%
impairment benefits	1.1%	2.0% to 2.5%	1.1%	2.1% to 2.5%
social rehabilitation benefits (a)	2.2%	2.5% to 2.7%	2.2%	2.5% to 2.7%
hospital rehabilitation benefits (b)	2.2%	2.5% to 2.7%	2.2%	2.5% to 2.7%
short-term medical costs (c)	2.2%	2.5% to 2.7%	2.2%	2.5% to 2.7%
other medical costs (c)	2.2%	2.5% to 2.7%	2.2%	2.5% to 2.7%

Superimposed inflation

In addition to the above there are superimposed inflation assumptions used in estimating the outstanding claims liability, which are summarised in the following. Superimposed inflation is the inflationary component in excess of annual movements in the LCI.

- a) Social rehabilitation (which represents around 71% of the rehabilitation liability) has an allowance for superimposed inflation that differs by type of payment, e.g. care versus capital. This long-term superimposed inflation assumption has financial significance; the impact of any change in this assumption is disclosed in the sensitivity analysis. The social rehabilitation superimposed inflation is composed of the following components:
 - 1) Growth in liability due to changes in care packages: movements of care services between non-contracted and agency care, refinements of care packages and increases in care rates are expected to have the following superimposed inflationary effects:

2013 Financial year ending	2014	2015-2016	2017-2018	2019-2020	2021-2024	2025-2029	2030+
Annual superimposed inflation	2.10%	5.40%	5.30%	5.20%	3.20%	3.10%	2.3% to 3.0%

2012 Financial year ending	2013	2014-2018	2019	2020	2021-2024	2025-2030	2031+
Annual superimposed inflation	2.00%	5.30%	3.80%	3.70%	3.20%	3.10%	2.3% to 3.0%

- 2) Capital expenditure: motor vehicle and housing modifications, along with other capital expenditure provided to those seriously disabled due to accidents, have been increasing significantly in the past years. An allowance has been made for superimposed inflation of 1.0% p.a. for 2014 followed by 7.7% p.a. for three years then 1.0% p.a. thereafter (2012: 1.0% p.a. for 2013 followed by 6.6% p.a. for four years then 1.0% p.a. thereafter).
- b) Hospital rehabilitation, which is predominantly elective surgery costs, includes an allowance for superimposed inflation of 5.0% p.a. for the next 10 years, followed by 4.0% p.a. thereafter (2012: 5.0% p.a. for the next 10 years, followed by 4.0% p.a. thereafter).
- c) Medical cost inflation includes an explicit allowance for superimposed inflation.

Notes to the financial statements

For the year ended 30 June 2013

	2013			2012			
	2014	2015-2019	2020+	2013	2014	2015-2019	2020+
Short-term-medical							
General Practitioners	2.00%	4.00%	3.00%	2.00%	2.00%	5.00%	3.00%
Radiologists	4.25%	5.75%	5.00%	4.25%	4.25%	6.50%	5.00%
Physiotherapists	1.70%	2.30%	2.00%	1.70%	1.70%	2.30%	2.00%
Other medical	1.75%	3.25%	2.50%	1.75%	1.75%	4.00%	2.50%

Risk free discount rate

The risk free rate is based predominantly on the yield curve of the New Zealand government bond rates. The longest term of a current New Zealand government bond is 10 years. Discount rates beyond 10 years are smoothed over a minimum of 10 years with a maximum increment of 0.05% per annum to eventually attain a long-term risk-free discount rate of 5.50%. This long-term rate is based on an examination of average New Zealand government returns over an extended period of time. This discounting methodology is consistent with that applied by the Treasury in valuing the liabilities on all Crown accounts.

Claims handling expenses

The following table shows the claims handling expenses as a percentage of the claims component of the outstanding liability by Account.

Claims handling costs by Account:

	2013	2012
Motor Vehicle	6.9%	6.7%
Non-Earners'	5.6%	4.1%
Earners'	8.2%	8.0%
Work	11.2%	10.9%
Treatment Injury	5.0%	4.8%
Overall margin (weighted average)	7.5%	7.1%

(i) Process used to determine assumptions

DISCOUNT RATE

The projected cash flows were discounted using a series of forward discount rates at balance date derived from the yield curve of the New Zealand government bond and an assumption that rates will rise to 5.50% in the long term as discussed above. The equivalent single effective discount rate taking into account ACC's projected future cash flow patterns is 4.86%.

INFLATION RATES

Short-term inflation rates are set by reference to the LCI, Average Wage Earnings and the CPI. Long-term inflation is determined using a long-term gap assumption between inflation and interest rates. Inflation rates beyond 21 years are set by deducting the long-term gap from the long-term risk free discount rate assumption.

CLAIMS HANDLING COSTS

The allowance for claims handling costs is determined by analysing claims-related costs incurred in the accounting year and expressing these expenses as percentages of claims paid in the same year. These are used as the basis for deriving the percentages that are applied to future projected payments to estimate future projected expense payments.

Notes to the financial statements

For the year ended 30 June 2013

SUPERIMPOSED INFLATION

Superimposed inflation is the increase in the cost of claims that is above general inflation.

Assumptions for superimposed inflation were set with reference to past observed superimposed inflation and an allowance for expectations of the future.

REHABILITATION RATE

The rehabilitation rate is the rate at which clients recover sufficiently to no longer require support from ACC.

Assumptions for the rehabilitation rate were set with reference to past observed experience with an allowance for expectations of the future.

(ii) Sensitivity to changes in key assumptions

The impacts of changes in key assumptions on the consolidated net surplus (deficit) are shown in the following table. Each change, which includes the risk margin, has been calculated in isolation from other changes.

	Movement	2013 Impact on net surplus (deficit) \$million	2012 Impact on net surplus (deficit) \$million
Discount rate	+1.0%	3,628	3,792
	-1.0%	(4,823)	(5,000)
Inflation rate	+1.0%	(4,966)	(5,131)
	-1.0%	3,788	3,946
Long-term real rate of return	+0.5%	602	693
	-0.5%	(865)	(775)
Superimposed inflation (excluding social rehabilitation for serious injury claims)	+1.0%	(1,028)	(1,055)
	-1.0%	774	800
Discounted mean term	+1 year	820	855
	-1 year	(846)	(882)
Superimposed inflation for social rehabilitation for serious injury claims after four years	+1.0%	(2,564)	(2,554)
	-1.0%	1,875	1,883
Long-term continuance rates for non-fatal weekly compensation	+1.0%	(707)	(872)
	-1.0%	611	724

Notes to the financial statements

For the year ended 30 June 2013

(f) Undiscounted outstanding claims liability

The reported outstanding claims liability of \$27,162 million (2012: \$28,396 million) represents the net present value of estimated cash flows associated with this obligation. The following table represents the timing of future undiscounted cash flows for claims, including claims handling costs as at 30 June 2013. These estimated cash flows include the effects of assumed future inflation.

\$million	Includes risk margin		Excludes risk margin	
	2013	2012	2013	2012
Less than one year	2,063	2,017	1,834	1,793
Between one and two years	1,536	1,538	1,364	1,366
Between two and five years	4,088	4,088	3,628	3,629
Between five and ten years	6,506	6,478	5,769	5,745
Between 10 and 15 years	6,427	6,374	5,693	5,648
Between 15 and 20 years	6,516	6,432	5,767	5,695
Between 20 and 25 years	6,669	6,564	5,898	5,807
Between 25 and 30 years	6,766	6,666	5,981	5,893
Between 30 and 35 years	6,755	6,646	5,967	5,871
Between 35 and 40 years	6,604	6,500	5,829	5,738
Between 40 and 45 years	6,300	6,195	5,556	5,464
Between 45 and 50 years	5,836	5,722	5,142	5,042
Greater than 50 years	18,636	17,583	16,381	15,460
Undiscounted outstanding claims liability	84,702	82,803	74,809	73,151

(g) Risk management policies and procedures

The financial condition and operations of ACC are affected by a number of key risks including insurance risk, credit risk (refer notes 13 and 17), liquidity risk (refer Note 17), compliance risk and operational risk. ACC's policies and procedures in respect of managing these risks are set out below.

(i) Risks arising from accident compensation Scheme operation and policies for mitigating those risks

ACC has an objective to manage insurance risk in order to maintain fair and stable levies over time to allow the business to plan with certainty. The key aspects of the process established in the risk management framework to mitigate risk include:

- the maintenance and use of management information systems that provide up-to-date, reliable data relevant to the risks to which the business is exposed
- actuarial and business management reporting models, using information from the management information systems, are used to monitor claims patterns. Past experience, relevant industry benchmarks and statistical methods are used as part of the process
- the financial consequences of catastrophic events (e.g. earthquake, tsunami) are estimated each year. The cost of purchasing reinsurance and the effect on levy rates of post-funding such events are considered. At this time, ACC does not hold any catastrophe reinsurance cover. This is based on a decision of the ACC Board made in 2011 and reviewed in 2012 to post-fund any such event. Should such an event occur, the impact on levies to post-fund this is not expected to be significant.

(ii) Terms and conditions of accident cover

The terms and conditions of personal injury cover are determined by the AC Act. ACC operates in compliance with its governing legislation.

Notes to the financial statements

For the year ended 30 June 2013

(iii) Concentration of risk

The ACC Scheme covers the risks related to the provision of rehabilitation and compensation to people in New Zealand who have injuries as a result of accidents.

(iv) Credit rating

ACC does not have and is not required to have a credit rating.

28. Reserve for future gradual process claims

The Work Account reserve includes levies and associated investment income that are intended to pay for all gradual process claims (being claims for personal injury caused by work-related gradual process, disease or infection) where the exposure occurred before 1 July 1999. However, as required by the AC Act and in accordance with accounting standards, the outstanding claims liability at 30 June 2013 only includes gradual process claims made by that date. Therefore within the Work Account, a portion of the reserve has been separately disclosed relating to future gradual process claims to show the levy revenue and associated investment income available to pay for gradual process claims where the exposure occurred before 1 July 1999 but claims have not yet been made.

\$000	Consolidated	
	2013	2012
Reserve available for future gradual process claims where exposure occurred before 1 July 1999 – opening balance	232,600	80,300
Adjustment to prior years' claims incurred *	31,100	10,500
Levy revenue attributable to future gradual process claims where exposure occurred before 1 July 1999	127,300	151,400
Investment income attributable to the assets of the reserve for future gradual process claims where exposure occurred before 1 July 1999	32,200	15,900
Payments for gradual process claims made during the year	(6,500)	(6,500)
Liability for gradual process claims made during the year	(23,400)	(19,000)
Reserve available for future gradual process claims where exposure occurred before 1 July 1999 – closing balance	393,300	232,600

* Adjustment to reflect actual payments and updated assumptions for the outstanding claims liability in relation to gradual process claims reported in the prior financial year.

The Work Account is intended to pay for all gradual process claims where the exposure has already occurred. As noted above the outstanding claims liability only includes gradual process claims that had been made as at 30 June 2013 and therefore excludes liability for future gradual process claims where the exposure has occurred but claims have not yet been made. An actuarial estimate has been made of the additional obligation for future gradual process claims where exposure already occurred before 1 July 1999 and between 1 July 1999 and 30 June 2013 but for which claims had not yet been made as at 30 June 2013. This estimate is shown below and is only for claims arising due to noise-induced hearing loss and exposure to asbestos, being the types of gradual process claim where sufficient data is available to permit a reasonable actuarial estimate of the additional obligation.

\$000	Consolidated	
	2013	2012
Present value of obligation for future gradual process claims not yet made where exposure occurred before 1 July 1999	(408,400)	(600,000)
Present value of obligation for future gradual process claims not yet made where exposure occurred between 1 July 1999 and balance sheet date	(239,600)	(339,100)
Present value of obligation for all future gradual process claims not yet made	(648,000)	(939,100)

Notes to the financial statements

For the year ended 30 June 2013

Under the AC Act the amount of levies to be received between 1 July 2009 and 31 March 2019 to cover gradual process claims where exposure occurred before 1 July 1999 is \$1,280 million. As at 30 June 2013, the present value of this future revenue from 1 July 2013 to 31 March 2019 was \$822 million (2012: \$861 million).

\$000	Consolidated	
	2013	2012
Reserve available for future gradual process claims where exposure occurred before 1 July 1999 – closing balance	393,300	232,600
Present value of levy revenue from financial year end to 31 March 2019 gazetted to be available to cover future gradual process claims where exposure occurred before 1 July 1999	822,300	860,500
Present value of obligation for future gradual process claims not yet made where exposure occurred before 1 July 1999	(408,400)	(600,000)
Difference in present value of obligation for future gradual process claims where exposure occurred before 1 July 1999 less reserves available and present value of future revenue gazetted to cover future gradual process claims where the exposure occurred before 1 July 1999	807,200	493,100

29. Asset revaluation reserves

\$000	Consolidated	
	2013	2012
Land revaluation reserve		
Balance at the beginning of the year	2,833	3,501
Revaluation (decrease)	(40)	(668)
Transfer to Account reserves	(2,763)	–
Balance at the end of the year	30	2,833
Building revaluation reserve		
Balance at the beginning of the year	252	1,641
Revaluation increase (decrease)	19	(1,389)
Balance at the end of the year	271	252
Total asset revaluation reserves	301	3,085

Notes to the financial statements

For the year ended 30 June 2013

30. Cash flows

Reconciliation of net cash inflow from operating activities with the reported net surplus (deficit).

\$000	Consolidated		
	Actual 2013	Actual 2012	Budget 2013
Net surplus (deficit) after tax	4,929,195	(473,780)	1,361,589
Add (less) items classified as investing activities:			
(Gains) losses on sale of property, plant and equipment	(1,276)	(446)	–
(Gains) losses on sale of intangible assets	–	13	–
Impairment and (gain) loss on disposal of investments in subsidiaries	–	(467)	–
Realised (gains) losses on sale of investments	(916,255)	(887,537)	(549)
Add (less) non-cash items:			
Depreciation	9,952	12,895	18,950
Amortisation of intangible assets	41,536	36,804	41,115
Intangible assets impairments/write-offs	1,000	11,474	–
Property, plant and equipment write-offs (back)	(346)	2,277	–
Revaluation of property, plant and equipment	–	277	–
Fair value (gains) losses on investments	127,503	22,999	–
Net adjustments to investments from foreign exchange (unrealised)	(318,443)	39,278	–
Movement in provision for employee benefits	3,244	3,777	–
Movement in provision for restructuring costs	–	(678)	–
Movement in provision for leasehold restoration	(524)	(11)	–
Movement in provision for interest on weekly compensation	216	295	–
Movement in provision for compensation and rehabilitation costs	200	14,700	–
Movement in provision for onerous contracts	(992)	2,446	–
Fair value movement for levy debtors	(1,922)	13,684	–
Movement in deferred tax	–	137	–
Movement in unexpired risk liability	(26,515)	68,592	61,215
(Decrease) increase in outstanding claims liability	(1,234,144)	3,885,960	1,102,811
Add (less) movements in working capital items:			
In receivables and accrued levy revenue	(42,003)	236,376	(35,994)
In payables and accrued liabilities	(9,915)	(55,523)	(12,945)
In unearned levy liability	58,266	(245,080)	54,497
Net cash inflow from operating activities	2,618,777	2,688,462	2,590,689

31. Related party transactions

All related party transactions have been entered into on an arm's-length basis.

ACC is a wholly owned entity of the Crown. All members of the group are considered to be related parties of ACC, which includes the subsidiary listed in Note 20.

(a) Significant transactions with government-related entities

ACC has been provided with funding from the Crown of \$1,201.3 million (2012: \$1,096.3 million) for the Non-Earners' Account and the Crown's share of the Treatment Injury Account.

Other significant transactions with government-related entities include purchases of services by ACC during the year from the Ministry of Health totalling \$451.7 million (2012: \$439.5 million) and the various District Health Boards totalling \$162.3 million

Notes to the financial statements

For the year ended 30 June 2013

(2012: \$165.2 million). The amount outstanding at balance date was \$137.8 million (2012: \$136.5 million). ACC made GST payments to Inland Revenue during the year totalling \$368.0 million (2012: \$452.9 million). The amount outstanding at balance date was \$21.9 million (2012: \$31.8 million).

ACC also made payments to Inland Revenue for the collection of earners' levies during the year totalling \$20.5 million (2012: \$20.5 million). The earners' levy payable to Inland Revenue at 30 June was \$12.5 million (2012: receivable \$7.9 million). ACC made payments to NZTA for the collection of motor vehicle levies totalling \$0.9 million (2012: \$5.3 million). The motor vehicle levy receivable from NZTA at 30 June was \$29.0 million (2012: \$21.5 million). ACC made payments to the New Zealand Customs Service for the collection of petrol levies totalling \$0.02 million (2012: \$0.02 million). The petrol levy receivable from New Zealand Customs Service at 30 June was \$27.9 million (2012: \$27.5 million). ACC made payments to Dispute Resolution Services Limited for personal injury and mediation services totalling \$13.9 million (2012: \$13.4 million).

(b) Collectively, but not individually, significant transactions with government-related entities

ACC received levies from entities controlled, significant influenced, or jointly controlled by the Crown.

In conducting its activities, ACC is required to pay various taxes to the Crown and entities related to the Crown. The payment of these taxes, other than income tax, is based on the standard terms and conditions that apply to all tax payers. ACC is exempt from paying income tax.

ACC also purchases goods and services from entities controlled, significantly influenced, or jointly controlled by the Crown. The purchase of goods and services included the purchase of electricity, air travel and postal services.

(c) Related party transactions with subsidiaries

During the 2012 year ACC purchased services from the group companies totalling \$0.1 million. The amount outstanding at balance date was \$nil. Sales to the group of companies by ACC in 2012 totalled \$0.02 million. The amount outstanding at balance date was \$nil.

(d) Key management personnel

The compensation for key management personnel is set out below:

\$000	Consolidated	
	2013	2012
Short-term employee benefits and Board members' fees	3,980	3,382
Post-employment benefits	–	–
Termination benefits	–	144
	3,980	3,526

Key management personnel compensation includes the compensation of members of the Board, Chief Executive and members of the Executive Management Team. Information regarding individual members of the Board is provided in the 'Governance' section of the Annual Report. Information regarding the remuneration of members of the executive team within specified bands is included in the 'Remuneration of employees' section.

Key management personnel compensation excludes the remuneration and other benefits received by the Minister for ACC.

Related party transactions involving key management personnel (or their close family members):

- related parties of key management personnel who pay levies to ACC
- related parties of key management personnel who are in receipt of rehabilitation and compensation benefits based on their own entitlements and eligibility criteria.

No provision has been required, nor any expense recognised, for the impairment of receivables from related parties (2012: \$nil).

Notes to the financial statements

For the year ended 30 June 2013

32. Capital management

Under the AC Act, ACC is required to fully fund all claims incurred prior to 1 July 1999 by 2019 in respect of the Earners', Work and Motor Vehicle Accounts.

Full funding means the liability in respect of existing claims is offset by an adequate level of assets to fund the future costs of those claims.

Sustainable levies are recommended by the ACC Board to achieve full funding for the Earners', Work and Motor Vehicle Accounts but final levy rates are set by the Government. The Non-Earners' Account has been fully funded by the Government since 1 July 2001 in respect of claims incurred from that date. The Treatment Injury Account is funded by the Earners' and Non-Earners' Accounts in proportion to the earner status of treatment injury claims, and reflects the funding bases of those Accounts.

The ACC Scheme is managed through five separate Accounts, each maintained for a specific purpose. The Accounts are funded through specific levies collected to meet the current and future costs of providing rehabilitation and compensation for claims within each Account.

In keeping with working towards being fully funded, one of ACC's priorities is to maintain a focus on levy stability and financial sustainability.

To meet this goal, ACC established a funding framework to provide a prudent and fiscally responsible process for setting stable levy rates while ensuring long-term financial sustainability. ACC's investment strategy is integrated with the funding framework.

The table below shows ACC's current funding status:

\$million	2013	2012
Net assets (excluding outstanding claims liability)	24,909	21,214
Outstanding claims liability	27,162	28,396
Funding ratio	91.7%	74.7%

Through a consistent focus on the rehabilitation of clients, prudent cost management and exceptional investment performance, ACC has significantly improved its financial position. This has seen the gap between its assets and liabilities closing, with the Scheme solvency improving to a point where full funding of the residual portions of the levied Accounts may be achieved ahead of the 2019 target.

This has provided ACC with a strong platform from which it can better balance the provision of high-quality services to clients and levy payers with the need to meet financial goals. These two objectives are not mutually exclusive; the provision of quality outcomes for customers will lead to improved financial performance.

33. Reinsurance

ACC has no catastrophe reinsurance as the cost to place the cover is assessed as not in line with the risk.

Catastrophe reinsurance will be reconsidered if and when this can be achieved at a reasonable cost.

34. Events after the balance sheet date

There were no significant events after balance date.

Notes to the financial statements

For the year ended 30 June 2013

35. Explanation of significant variances against budget

As stated in the summary of significant accounting policies, the budget figures are those in ACC's Statement of Intent 2012-2015. The Statement of Intent 2012-2015 was prepared based on the claims valuation as at 31 December 2011 using discount rates at 31 March 2012.

Explanations for significant variations from the budgeted figures approved by the Board are as follows:

(a) Statement of comprehensive income

Net levy revenue

Net levy revenue was higher than budget partly due to an increased appropriation in the Non-Earners' Account required to meet higher 'pay-as-you-go' costs.

Investment income

The investment return for the year was 9.886% for the reserves portfolio. This was above the market benchmarks and the expected return of 5.26% to 5.71% for each Account assumed in the budget.

Claims paid

The lower rehabilitation and compensation costs were due to the lower number of weekly compensation claims and average payments for these. This was a function of improved rehabilitation rates and steady conversion rates, despite an increasing number of new registered claims.

Decrease in outstanding claims liability

The impact of the sustained good claims performance resulted in a decrease in the outstanding claims liability. In addition, there was a decrease due to the impact of discount rate movements and other economic factors and assumptions. Refer to Note 27(b) for details.

Movement in unexpired risk liability

There was no unexpired risk liability for the Work Account as expected in the budget.

(b) Statement of financial position

Investments

Net investments were higher due to higher investment income.

Payables and accrued liabilities

Unsettled investment transactions were lower than expected in the budget at balance date.

Outstanding claims liability

The outstanding claims liability for the budget was based on the valuation done in December 2011. After that valuation, there were decreases in the claims liability due to the reasons mentioned above.

(c) Statement of changes in reserves (equity)

Net surplus

There was a higher-than-budgeted surplus for the year due to the budget variances explained in the statement of comprehensive income. ACC achieved a strong surplus from its operations during the year.

(d) Statement of cash flows

The net cash inflow from operating activities was achieved as expected.

Statement of responsibility

(Pursuant to section 155 of the Crown Entities Act 2004)

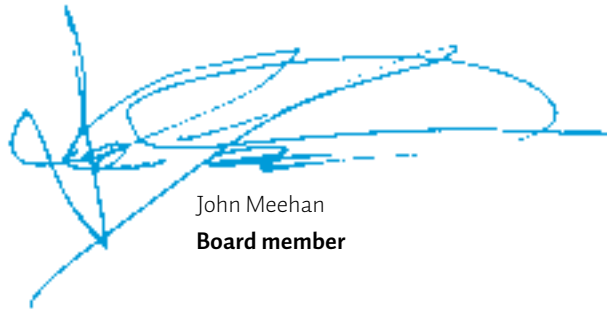
We acknowledge responsibility for the preparation of these financial statements and statement of service performance and for the judgements used therein.

We have been responsible for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of ACC's financial and non-financial reporting.

In our opinion, these financial statements and statement of service performance fairly reflect the financial position and operations of ACC for the year ended 30 June 2013.



Paula Rebstock
Board Chair



John Meehan
Board member

INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF ACCIDENT COMPENSATION CORPORATION AND GROUP'S FINANCIAL STATEMENTS AND NON-FINANCIAL PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2013

The Auditor-General is the auditor of Accident Compensation Corporation (the Corporation) and group. The Auditor-General has appointed me, Simon O'Connor, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements and non-financial performance information of the Corporation and group on her behalf.

We have audited:

- the financial statements of the Corporation and group on pages 32 to 96, that comprise the statement of financial position as at 30 June 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and notes to the financial statements that include accounting policies and other explanatory information; and
- the non-financial performance information of the Corporation and group that comprises the statement of service performance and the report about outcomes on pages 101 to 112.

Opinion

In our opinion:

- the financial statements of the Corporation and group on pages 32 to 96:
 - comply with generally accepted accounting practice in New Zealand; and
 - fairly reflect the Corporation and group's:
 - financial position as at 30 June 2013; and
 - financial performance and cash flows for the year ended on that date.
- the non-financial performance information of the Corporation and group on pages 101 to 112:
 - complies with generally accepted accounting practice in New Zealand; and
 - fairly reflects the Corporation and group's service performance and outcomes for the year ended 30 June 2013, including for each class of outputs:
 - the service performance compared with forecasts in the statement of forecast service performance at the start of the financial year; and
 - the actual revenue and output expenses compared with the forecasts in the statement of forecast service performance at the start of the financial year.

Our audit was completed on 26 September 2013. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board and our responsibilities, and we explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and non-financial performance information are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and non-financial performance information. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and non-financial performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and non-financial performance information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Corporation and group's financial statements and non-financial performance information that fairly reflect the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Corporation and group's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board;
- the appropriateness of the reported non-financial performance information within the Corporation and group's framework for reporting performance;



- the adequacy of all disclosures in the financial statements and non-financial performance information; and
- the overall presentation of the financial statements and non-financial performance information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and non-financial performance information. Also we did not evaluate the security and controls over the electronic publication of the financial statements and non-financial performance information.

We have obtained all the information and explanations we have required and we believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board

The Board is responsible for preparing financial statements and non-financial performance information that:

- comply with generally accepted accounting practice in New Zealand;
- fairly reflect the Corporation and group's financial position, financial performance and cash flows; and
- fairly reflect the Corporation and group's service performance and outcomes.

The Board is also responsible for such internal control as is determined is necessary to enable the preparation of financial statements and non-financial performance information that are free from material misstatement, whether due to fraud or error. The Board is also responsible for the publication of the financial statements and non-financial performance information, whether in printed or electronic form.

The Board's responsibilities arise from the Crown Entities Act 2004, the Public Finance Act 1989 and the Accident Compensation Act 2004.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and non-financial performance information and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and the Crown Entities Act 2004.

Matters relating to the electronic presentation of the audited financial statements and non-financial performance information / statement of service performance

This audit report relates to the financial statements and non-financial performance information / statement of service performance of the Corporation and group for the year ended 30 June 2013 included on the Corporation's website. The Corporation's board is responsible for the maintenance and integrity of the Corporation's website. We have not been engaged to report on the integrity of the Corporation's website. We accept no responsibility for any changes that may have occurred to the financial statements and non-financial performance information / statement of service performance since they were initially presented on the website.

The audit report refers only to the financial statements and non-financial performance information / statement of service performance named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements and non-financial performance information / statement of service performance. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and non-financial performance information / statement of service performance as well as the related audit report dated 26 September 2013 to confirm the information included in the audited financial statements and non-financial performance information / statement of service performance presented on this website.

Legislation in New Zealand governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

Other than the audit, provision of technical accounting assistance and recovery of costs relating to facilities hire and staff training, we have no relationship with or interests in the Corporation or any of its subsidiaries.

Simon O'Connor
Ernst & Young
On behalf of the Auditor-General
Wellington, New Zealand

Remuneration of employees

The number of employees whose remuneration was within specified bands is as follows:

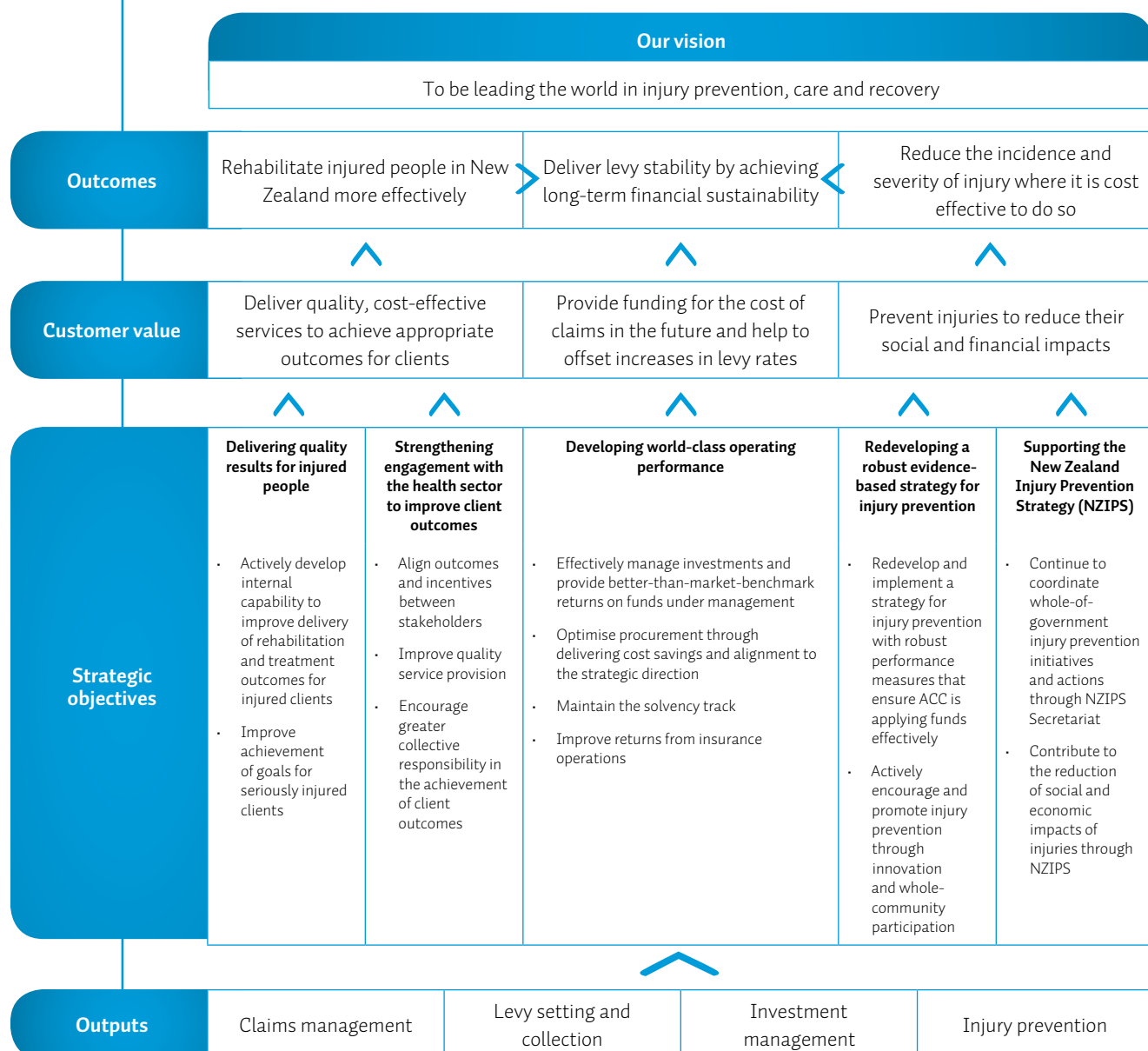
	Consolidated	
	2013	2012
\$100,000 – \$110,000	99	94
\$110,000 – \$120,000	64	50
\$120,000 – \$130,000	38	40
\$130,000 – \$140,000	36	28
\$140,000 – \$150,000	28	25
\$150,000 – \$160,000	23	24
\$160,000 – \$170,000	13	10
\$170,000 – \$180,000	9	8
\$180,000 – \$190,000	11	6
\$190,000 – \$200,000	5	7
\$200,000 – \$210,000	7	3
\$210,000 – \$220,000	1	4
\$220,000 – \$230,000	3	1
\$230,000 – \$240,000	1	–
\$240,000 – \$250,000	1	4
\$250,000 – \$260,000	9	2
\$260,000 – \$270,000	2	1
\$270,000 – \$280,000	1	2
\$280,000 – \$290,000	1	1
\$290,000 – \$300,000	–	1
\$300,000 – \$310,000	1	–
\$310,000 – \$320,000	2	–
\$320,000 – \$330,000	1	–
\$330,000 – \$340,000	1	3
\$340,000 – \$350,000	2	–
\$360,000 – \$370,000	1	–
\$370,000 – \$380,000	1	2
\$380,000 – \$390,000	1	1
\$390,000 – \$400,000	–	1
\$400,000 – \$410,000	1	–
\$430,000 – \$440,000	–	1
\$450,000 – \$460,000	–	1
\$490,000 – \$500,000	1	1
\$510,000 – \$520,000	–	1
\$530,000 – \$540,000	–	2
\$540,000 – \$550,000	2	–
\$550,000 – \$560,000	1	1
\$560,000 – \$570,000	1	–
\$570,000 – \$580,000	–	1
\$580,000 – \$590,000	–	1
\$600,000 – \$610,000	1	–
\$610,000 – \$620,000	1	1
\$720,000 – \$730,000	–	1
\$750,000 – \$760,000	–	1
\$760,000 – \$770,000	1	–
\$780,000 – \$790,000	1	–
Total employees	372	330
Average remuneration of above employees	\$153,479	\$154,931

20 staff received redundancy payments or settlement payments in 2013, totalling \$479,062 (2012: 40 staff \$1,314,584).

Statement of service performance for the year ended 30 June 2013

The statement of service performance includes both the outcome and output measures contained in our Statement of Intent 2012-2015. The combination of measures details what we have done (outputs) and the difference this has made (outcomes).

ACC's 2012-2015 outcomes framework



Performance against our outcomes

This section is intended to enable an easy comparison of our results this year against those of last year and against our target. A number of measures for 2012/13 were new, so for some there is no prior-year comparison. Of our 17 outcome measures that assess whether we are on the path to achieving our outcomes, 13 were achieved.

Where appropriate we have included comparative performance information against the performance measures for last year. Where there are no comparative results for last year (for example, where we introduced new measures this year), these have been indicated by 'New measure'.

	Measure	Results		Target	Performance against target
		2011/12	2012/13	2012/13	
Reduce the incidence and severity of injury where it is cost effective to do so	Work – claim reductions among employers participating in injury reduction programmes in comparison with peer groups of employers	1.6%	3.7%	5% per annum greater reduction than peer group average	Not achieved – refer to note 1
	Road – return on investment in young driver programme	11:1	(1.4):1	1:1	Not achieved – refer to note 2
	Five falls pilot programmes to be rolled out nationwide once the evaluation of the 'Idea Nation' information is completed	New measure	Business cases for Idea Nation pilot programme have been signed off	Five pilot programmes for reducing falls in the working-age population delivered	Not achieved – refer to note 3
Rehabilitate injured people in New Zealand more effectively	Client satisfaction Improvement in the percentage of clients satisfied with ACC's service experience from the 2011/12 actual result	70%	68%	72%	Not achieved – refer to note 4
	National Serious Injury Service (NSIS) client goals' attainment Increase in the percentage of NSIS client goals attained or exceeded	New measure	69%	69%	Achieved
	Supporting the rehabilitation of long-term clients Maintain a strong focus on the rehabilitation of long-term clients by monitoring the net number returned to independence	1,009	209	200	Achieved
	Improved return-to-work/ independence performance Average duration of weekly compensation days paid in the first 365 days	New measure	85 days	86 days	Achieved
	Durable-return-to-work indicator ACC's durable-return-to-work rate to be above the Australian average	80% (above Australian average of 75%)	78% (above Australian average of 77%)	Above the Australian average	Achieved
	Quality treatment outcomes A decrease in poor-quality treatment outcomes over time. The poor quality index is a weighted composition of measures used to quantify poor-quality outcomes and the index is targeted to reduce over time	102	99.6	100	Achieved
	Management of health care expenditure Annual savings targets for health procurement (below PricewaterhouseCoopers forecast)	New measure	\$393 million	\$347 million	Achieved

		Results		Target	Performance
Measure		2011/12	2012/13	2012/13	against target
Deliver levy stability by achieving long-term financial sustainability	Improve ACC’s solvency position – a measure of the assets available to each Account as a percentage of that Account’s claims liability				
	ACC parent	74.7%	91.7%	82.6%	Achieved
	Work Account	100.4%	126.7%	106.8%	Achieved
	Earners’ Account	106.3%	126.1%	108.7%	Achieved
	Motor Vehicle Account	67.8%	87.3%	80.1%	Achieved
	Non-Earners’ Account	40.0%	47.1%	43.7%	Achieved
	Treatment Injury Account	53.2%	67.0%	65.5%	Achieved
	Increase returns from insurance operations to reach full funding – a measure of ACC’s performance towards full funding by calculating income less expenditure plus the expected change in the outstanding claims liability				
	Total Scheme	\$3,577 million	\$2,729 million	>\$1,362 million	Achieved – refer to note 5
	Increase returns from investments – a measure of ACC’s investment performance by comparing with the industry standard. This is measured as a percentage above blended market average benchmark				
Investment returns against benchmark	0.27% above benchmark	1.49% above benchmark	0.5% above benchmark	Achieved	

Note 1: Our results for work claim reductions among employers participating in injury reduction programmes are trending in the right direction. Accidents that occur in this group of employers tend to be of a less severe nature, leading to claims of shorter duration than those from non-engaged employers. This is largely due to improvements in injury prevention and management systems in these workplaces. While the difference in claim numbers did not achieve the target of 5%, the reduced severity and duration of claims limits the overall impact on the Scheme.

Note 2: There was an 11% decline in injuries among 16- to 19-year-olds but only a 3% decline in injuries among people aged 20-24 this year. As a result there was a negative return on investment from the programme this year. We, alongside NZTA, are redesigning the Practice programme (the main programme delivering the return on investment) to increase uptake in the target audience and to incorporate the latest research findings in the area of young people's education and coaching.

Note 3: Idea Nation was a competition that sought ideas from all New Zealanders to reduce the number and severity of falls in the home. The five ideas were selected, business cases were developed and the first pilot is due to commence in August 2013.

Note 4: Although we did not achieve the annual levels of customer satisfaction for which we aimed this year, results in the fourth quarter were positive, with both client, and other employers and the self-employed satisfaction rates increasing in the quarter by 8% and 4% respectively. Further information on how we will continue to focus on improving our customers' experience of ACC is provided on pages 16–19.

Note 5: The better-than-expected performance in returns from insurance operations was mainly due to sustained rehabilitation performance. Claims expenditure this year was lower than budgeted and rehabilitation performance was better than assumed by the independent valuation, leading to a reduction in our outstanding claims liability.

Performance against output delivery

This section sets out the outputs that we are funded to provide and the standards against which we assess operational performance.

The nature of service performance information is divided into:

- activity information (described as quantity measures in our Statement of Intent 2012-2015) – this is information on the demand for our services that provides a context for our performance measure results. Significant variations from the forecast figure can influence the achievement of the targets set for our performance measures
- performance measures – these are measures we use to set our performance targets. Where possible these measure our performance in terms of quality, timeliness and cost.

We have provided explanations for:

- activity forecasts where actual demand was outside the expected range by more than 10%
- performance measures that were not achieved
- performance measures with a positive variance greater than 10%.

The breakdown of our revenue earned and costs incurred compared with expected revenue and costs reported in the Statement of Intent 2012-2015 was as follows:

	Administration (\$million)		Claims paid (\$million)		Revenue (\$million)	
	Actual	Budget	Actual	Budget	Actual	Budget
Output class 1 – claims management	331	337	2,640	2,777	–	–
Output class 2 – levy setting and collection	37	37	–	–	4,715	4,628
Output class 3 – investment management	60	52	–	–	2,090	1,169
Output class 4 – injury prevention	22	20	–	–	–	–
Total	450	446	2,640	2,777	6,805	5,797
Other operating costs	48	49	–	–	–	–
Total ACC	498	495	2,640	2,777	6,805	5,797

Output 1: Claims management

Our claims management approach aims to support our overall outcome to ensure that injured people covered by the Scheme get the appropriate medical treatment, social and vocational rehabilitation services and compensation to ensure a swift return to work, independence or everyday life.

We manage claims from the relatively minor, where clients require primary health services (such as a one-off visit to a GP), to claims from individuals who suffer serious injuries requiring lifelong services and support.

Activity information – claims volumes

The table below shows the recent trend in volumes and types of claims we receive. The Scheme is entitlement based, which means each claim is evaluated to determine whether it meets the requirements of the AC Act. We do not have the ability to ration our services as demand is determined by the number of covered injuries that occur and whether those who are injured seek treatment.

Measure	Definition	2009/10	2010/11	2011/12	2012/13
Registered claims	Total number of registered claims in the period	1,658,591	1,670,171	1,680,843	1,718,286
Medical fees only claims	Total number of medical fees only claims in the period	1,467,636	1,475,551	1,488,248	1,508,477
Other entitlement claims	Total number of entitlement claims (all entitlement claims excluding weekly compensation) that receive a payment in the period	112,406	99,976	94,319	93,284
Weekly compensation claims	Total number of weekly compensation claims that receive a payment in the period	95,731	85,903	82,576	87,895
Long-term weekly compensation claims	Number of long-term weekly compensation claims as at 30 June	13,157	11,615	10,606	10,398
New serious injury claims	Total number of new serious injury claims in the period	254	208	200	198
Fatal claims	Total number of fatal claims in the period	2,064	1,658	1,366	1,545

Cost measures

We aim to keep total expenditure down while ensuring that clients receive their appropriate entitlements under the Scheme. We monitor expenditure against budget for the key cost drivers of the Scheme. This is shown below.

	Actual (\$million) 2011/12	Forecast (\$million) 2012/13	Actual (\$million) 2012/13
Expenditure against key cost drivers			
Income maintenance (non-fatal weekly compensation)	759	780	758
Social rehabilitation	406	430	419
Medical treatment	449	501	503
Hospital treatment (elective surgery)	234	270	255

In addition to paying for rehabilitation and compensation, we must employ staff to manage claims and provide them with the capabilities to do so effectively.

Our staffing numbers do not change in response to changes in short-term claim rates. The table below shows the number of staff (including third-party contractors and excluding corporate staff) who manage claims.

Staff type	30 June 2012	30 June 2013
Direct frontline staff	1,761	1,876
Indirect frontline staff	369	378
Total frontline staff	2,130	2,254

Our staff numbers increased this year. The increases were across the organisation, with much of the growth due to increased resources required for privacy work. We remain committed to achieving an appropriate balance between direct front line and corporate office staff.

Our claims handling costs mainly consist of staff salaries and overheads. Claims management efficiency is measured by expressing total claims handling costs as a percentage of total claims expenditure.

Measure	2011/12 Actual	2012/13 Forecast	2012/13 Actual
Claims handling costs (\$million)	315	337	331
Claims handling costs as a percentage of total claims paid	12.1%	12.1%	12.5%

Quality measures

The quality of claims management is measured both by determining client outcomes and by assessing whether we are making appropriate decisions.

The 70-day weekly compensation measure tracks how successfully we are managing shorter-duration claims and, if performance declines, indicates the extent of future growth in the long-term claims pool. The 273-day target is an important societal measure, as research shows that injured workers who do not return to work within this timeframe will not, on average, recover their pre-injury economic status.

In addition to these measures, we measure the percentage of reviews of ACC decisions that are contested and found in ACC's favour. This ensures that we are making appropriate decisions within our legislative mandate.

Measure	Definition	2011/12 Actual	2012/13 Forecast	2012/13 Actual
70-day rehabilitation rate	The percentage of clients receiving weekly compensation entitlements who have been rehabilitated within 70 days	70.6%	70.9%	70.3%
273-day rehabilitation rate	The percentage of clients receiving weekly compensation entitlements who have been rehabilitated within 273 days	93.9%	93.3%	93.9%
Percentage of reviews in favour of ACC	The percentage of reviews lodged with Dispute Resolution Services Limited with decision withdrawn, settled or in favour of ACC	78.9%	78.5%	81.3%

Our 70-day rehabilitation rate did not meet target by 0.6%. Overall our rates remained strong. This year we saw fewer low-complexity claims needing weekly compensation (due to a greater focus on the benefits of recovery at work with appropriate treatment and rehabilitation). This slight reduction from target suggests that those now receiving weekly compensation have more complex injuries from which they take a longer time to recover. We continue to focus on maintaining our current level of good rehabilitation performance.

Output 2:

Levy setting and collection

In order for us to deliver services we must collect revenue. Through our levy setting process we calculate our future revenue needs for each Account. We must ensure that we recommend levies that are sufficient to cover the costs of claims incurred in that year and that are sufficient to keep us on track to meet our full funding requirements by 2019.

The recommendations are consulted on with levy payers and provided to Cabinet for consideration.

Activity information

The table below shows the number of funders for each Account and the size of each Account (as measured by the amount of levies collected and the appropriation received).

		2011/12 Actual	2012/13 Forecast	2012/13 Actual
Levy-funded Accounts				
Work Account	Number of employed and self-employed	2,212,000	2,248,000	2,242,000
	Levy revenue (\$ million)	1,034	957	966
Earners' Account	Number of earners	2,235,000	2,265,000	2,261,000
	Levy revenue (\$ million)	1,523	1,319	1,333
Motor Vehicle Account	Number of vehicles	3,113,000	3,151,000	3,127,000
	Levy revenue (\$ million)	1,054	1,040	1,052
Government-funded Account				
Non-Earners' Account	Number of non-earners	2,213,000	2,226,000	2,188,000
	Government appropriation (\$ million)	905	921	969
Mixed-funded Account				
Treatment Injury Account	Number of non-earners	2,213,000	2,226,000	2,188,000
	Government appropriation (\$ million)	191	230	233
	Number of earners	2,235,000	2,265,000	2,261,000
	Levy revenue (\$ million)	158	162	163

Cost measures

The table below shows how much we spent on collecting revenue for the Work Account compared with our budget.

The effectiveness of our levy collection and setting processes for the Work Account is measured by showing the cost as a percentage of total levy revenue.

Measure		2011/12 Actual	2012/13 Forecast	2012/13 Actual
Work Account	Total cost of collection (ACC administration costs)	\$17.9 million	\$18.2 million	\$17.1 million
		Actual	Target	Actual
Levy collection costs as a proportion of total levy revenue in the Work Account		1.7%	<2%	1.8%

Quality measures

The quality of levy collection is measured in terms of the effectiveness of our debt collection processes. The voluntary compliance measure provides an important indicator of the invoices that we expect to be paid in full. Levy payers who do not meet the voluntary compliance criteria have their debts actively pursued.

The overall amount of debt written off is measured as a proportion of total expected revenue in the Work Account. Levy debt is only written off once all practical steps have been taken to recover the outstanding amount.

Measure		2011/12 Actual	2012/13 Forecast	2012/13 Actual
Voluntary compliance rate	Proportion of employers and self-employed who either make levy payment in full or make alternative arrangements for payment within the notice deadline	80.6%	>70%	81.8%
Levy debt write-off	Levy debt write-off as a proportion of total expected revenue in the Work Account	1.3%	1.5%	1.69%
Levy payer satisfaction	Levy payer customer satisfaction – top 2,500	89%	1% above baseline of 85%	89%
	Levy payer customer satisfaction – other employers and self-employed	67%	3% above baseline of 66%	63%

Satisfaction rates for other employers and self-employed were below the target for the year, although the fourth quarter result was a 4% improvement on the previous quarter. Activities to improve customer satisfaction rates, particularly for the other employer and self-employed segments, included:

- employer forums and seminars
- engagement and leadership in the Canterbury Rebuild Safety Charter
- a continued focus on internal quality programmes to measure the quality of service delivery and telephone interactions with customers and address issues that are identified.

Output 3: Investment management

We set aside and invest a portion of all levy revenue to provide for the future costs of claims.

This portion of levy revenue is invested by our in-house investment management team. By achieving market returns, investment management helps to address the solvency gap without requiring higher levies and appropriations. Once the Scheme is fully funded, the investment returns will be used to offset future levies and appropriations.

Activity information

\$million	2011/12 Actual	2012/13 Forecast	2012/13 Actual
Funds under management (average)	20,426	21,746	22,527
Investment income	1,711	1,169	2,090

Refer to the investment performance report for further detail.

Cost measures

The efficiency of our investment management is measured by expressing total investment management costs as a proportion of the total funds under management.

Measure	Definition	2011/12 Actual	2012/13 Forecast	2012/13 Actual
Investment management costs		\$54 million	\$52 million	\$60 million
Proportional investment management costs	Investment management costs as a proportion of total funds under management	0.28%	0.35%	0.27%

As the investment portfolio increases in size, so do the costs of managing those investments. ACC's investment returns this year outperformed forecast performance, and the costs to manage investments did not grow at the same rate as the size of the reserves portfolio.

Quality measures

The quality of our investment management can only be gauged by comparing our returns with what a similar fund (under different management) might be expected to achieve. This is done through the use of a blended market average benchmark, which provides a like-with-like comparison with other funds.

Measure	Definition	2011/12 Actual	2012/13 Forecast	2012/13 Actual
Investment returns against benchmark	% above blended market average benchmark	0.27%	0.5%	1.49%

Our investment management team continued to outperform the market and as a result our investment income was better than expected. Refer to the investment performance report for further detail.

Other quality indicators

In addition to seeking a good return on investment, we seek to ensure that these returns are achieved in an ethically robust manner. We operate an Ethical Investment Policy and avoid investing in activities that are either repugnant to the laws of New Zealand or regarded as unethical by a substantial majority of New Zealanders. ACC is a signatory to the United Nations Principles for Responsible Investment, which provide a general framework for ethical investment, and cooperates with other Crown financial institutions on investment issues, such as the Guardians of New Zealand Superannuation, the Government Superannuation Fund Authority and the Earthquake Commission.

Output 4: Injury prevention

ACC is one of a number of government agencies with a responsibility for reducing the high burden of injury in New Zealand. These obligations are met through:

- **leadership of three New Zealand Injury Prevention Strategy (NZIPS) areas** – ACC is responsible for the leadership of the falls and drowning priority areas and the alcohol-related injury focus area
- **injury prevention initiatives in areas that have a high financial impact on the Scheme** – ACC is statutorily charged with minimising the overall incidence and impact of injury and is also required to ensure that its injury prevention measures are coordinated with similar activities of other government agencies.

Activity information

Following the successful implementation of experience rating in 2011, we continue to measure the number of high-risk and high-value employers who have workplace injury mitigation plans in place. An increase in the number of employers engaged in such programmes will result in a reduction in claims and an increase in injury prevention awareness in the targeted employer groups. Further information on our work this year with employers is included on page 12.

Measure	Definition	2011/12 Actual	2012/13 Forecast	2012/13 Actual
Work Account – engagement in claim reduction programmes	% of targeted high-risk and high-value employers who are engaged in workplace mitigation activity plans	New measure	40%	68.2%

We should only undertake injury prevention activity if it is likely to result in a cost-effective reduction in actual or projected levy rates or the Non-Earners' appropriation. Each year we monitor the movement in the entitlement claim frequency rates.

Measure	Definition	2011/12 Actual	2012/13 Forecast	2012/13 Actual
Work Account – entitlement claim reduction	% of the reduction in entitlement claim frequency rates against forecast for the Work Account each year	New measure	Decrease of 1%	Increase of 4.2%
Motor Vehicle Account – entitlement claim reduction	% of the reduction in entitlement claim frequency rates against forecast for the Motor Vehicle Account each year	New measure	Decrease of 1%	Increase of 3.4%
Earners' Account – entitlement claim reduction	% of the reduction in entitlement claim frequency rates against forecast for the Earners' Account each year	New measure	Decrease of 1%	Decrease of 1.3%
Non-Earners' Account – entitlement claim reduction	% of the reduction in entitlement claim frequency rates against forecast for the Non-Earners' Account each year	New measure	Decrease of 1%	Decrease of 2.1%

Work Account: An increased number of entitlement claims in construction, retail trade, wholesale trade, and health and community services affected on our ability to meet the Work Account claims reduction

target. As a response to the increased construction-related injuries, we have recently launched a programme of work focused on reducing the number of construction-related injuries in Canterbury, whilst also supporting the Canterbury Rebuild Safety Charter activity.

Motor Vehicle Account: Entitlement claims from vehicle drivers and passengers aged 65 and over, along with 20- to 24-year-old drivers and passengers, were higher than expected. With our other road safety partners, we are developing programmes and legislative options that would support a reduction in injuries in the 20- to 24-year-old age group. We are also revisiting our approach to older drivers and passengers. A key issue will be balancing the risk of injury against the social benefits that come from maintaining mobility for the elderly.

Cost measures

The table below summarises our actual NZIPS spend against budget.

Measure	2011/12 Actual	2012/13 Forecast	2012/13 Actual
Total NZIPS budget	\$293,000	\$616,000	\$100,000

The NZIPS Secretariat budget was set at a level consistent with prior years plus an allowance to support the World Injury Prevention Conference. This allowance was not spent as the attendees at the conference exceeded expectations and the resulting registration income meant costs were lower. The remaining NZIPS Secretariat budget was underspent following the merging of the NZIPS Secretariat with the Injury Prevention Strategy project during the 2012/13 year.

We measured the management of injury prevention using the following cost measure.

Measure	Definition	2011/12 Actual	2012/13 Forecast	2012/13 Actual
Total expenditure against budget	Total injury prevention expenditure against budget	\$22.97 million	\$20 million	\$22.4 million

The additional investment in injury prevention for 2012/13 was funded through administration savings achieved by the Insurance and Prevention Services group. The additional unplanned investment was in home and community (e.g. sexual violence primary and secondary prevention) and road safety.

Quality measure

We measure the effectiveness of our leadership of the NZIPS Secretariat against the key deliverables of the NZIPS for 2012/13.

Measure	Definition	2012/13 Forecast	2012/13 Actual
Leadership of the NZIPS Secretariat	Lead the development, implementation and monitoring of the NZIPS	Key deliverables for 2012/13 were to: <ul style="list-style-type: none"> implement the NZIPS Joint Work Plan 2012 – 2015 continue the development of the New Zealand injury prevention outcomes monitoring framework 	Achieved This action was merged with the Injury Prevention Strategy project during the 2012/13 year. Please refer to the separate comment on the Injury Prevention Strategy

Appendices

Appendix 1 – Investment report

Why ACC invests

ACC has a policy of fully funding all new injuries. We aim to collect sufficient levies each year to provide for all the immediate and future costs of injuries occurring in that year. Because serious injuries will require ongoing expenditure by ACC for decades into the future, a portion of the levies collected each year is set aside to provide for future costs.

ACC's Reserves Portfolios consist of funds that have been put aside in the past several years to provide for the future costs of injuries that occurred before July 2013 but continue to require ongoing expenditure by ACC.

Objectives and risks

We aim to balance the often-competing objectives of enhancing investment returns and reducing ACC's overall financial risk. Greater investment income means that less money needs to be collected from levies over time.

We think about risk from the perspective of ACC's overall financial position, rather than just focusing on the investment portfolios in isolation. This perspective on risk has both long-term and short-term aspects to it.

- The long-term perspective on risk is that ACC could have insufficient funds to pay the future costs that its Reserves Portfolios were intended to cover, either because long-term investment returns could prove to be lower than expected, or because inflation could prove to be higher than expected. When ACC puts funds aside to meet future costs, our actuaries use government bond yields as a slightly conservative estimate of the return that we might expect ACC to earn on those funds.
- The short-term perspective on risk is that we are keen to avoid the large increases in levy rates that could be required if ACC were to stray significantly 'off-course' in terms of its ability to meet future obligations. Specifically, we measure whether we are 'on-course' for funding our future claims obligations by comparing the value of ACC's assets (mainly investment assets) with the value of our claims liabilities, for the private-sector-funded Accounts that have a policy of full funding.

Both perspectives on risk encourage us to minimise the risk of large adverse movements in the gap between the assessed value of claims liabilities and the market value of ACC's investment portfolios. This means that we need to think not only about financial risks that could affect the value of ACC's investment portfolios, but also about risks that could affect the actuarial value of ACC's claims liabilities. Key risks that could adversely affect the balance of ACC's assets and liabilities (and therefore levy rates) include:

- poor returns from equity markets. Weak equity markets would be likely to result in a reduction in the value of ACC's investment portfolios without a corresponding reduction in the value of our claims liabilities

- declines in real long-term interest rates¹³. If interest rates declined without a corresponding decrease in the inflation outlook, this would lead to an increase in the assessed value of our claims liability, and a decrease in our long-term expectations for investment returns. We aim to offset this risk by holding investment assets that will tend to rise in value when real interest rates decline. However, ACC's investment portfolios only provide a partial offset to this risk
- an increase in the inflation outlook. All of our claims liabilities are sensitive to inflation, but a significant portion of ACC's fixed interest investments does not provide protection against inflation. If the inflation outlook increases and bond yields show a corresponding increase, this would have an adverse impact on the value of ACC's fixed interest portfolios. Conversely, if the inflation outlook deteriorated but nominal bond yields did not increase, this would lead to a significant rise in the assessed value of our claims liabilities
- poor investment returns for reasons that are unrelated to either claims liabilities or the general performance of equity markets. This could occur due to widespread credit defaults or a strengthening in the NZ dollar against foreign currencies, or if our investment performance were worse than market benchmarks.

Allocation of funds

Our allocation of funds among different investment markets is directly linked to the objectives and risks discussed in the preceding section.

While it is not possible to fully offset all the long-term risks, we allocate funds among investment markets and set investment policy with an aim of keeping each of these risks at a manageable level. We also need to strike an appropriate balance between reducing these risks and enhancing returns.

The way in which we think about risk has a significant influence on how we allocate funds between markets. Compared with many other funds, we tend to invest a relatively large percentage of ACC's funds in New Zealand investment markets, particularly fixed interest instruments with a long time to maturity. The main reasons for this are:

- New Zealand investment markets match our claims liabilities better than offshore markets, as our claims liabilities are sensitive to real New Zealand bond yields
- the internal management costs of ACC's New Zealand investments are much lower than the external management costs for offshore investments.

Consequently, ACC makes a significant contribution to New Zealand capital markets and is one of the largest investors in New Zealand companies, owning about 3.5% of the total capitalisation of the New Zealand sharemarket, and an even larger proportion of New Zealand dollar investment-grade bonds.

As ACC's total investment funds continue to grow over time, it will not be possible to maintain the same percentage allocation to New Zealand investment markets without holding a bigger and bigger slice of those markets. This could make it increasingly difficult for ACC to outperform the market as a whole. This is a key consideration when deciding how our allocation to investment markets should evolve over time.

Each of ACC's Accounts splits its investment funds between an investment in ACC's short-term 'cash portfolio', used to meet near-term expenditure requirements, and its own longer-term 'reserves portfolio', set aside to meet the future costs of existing claims.

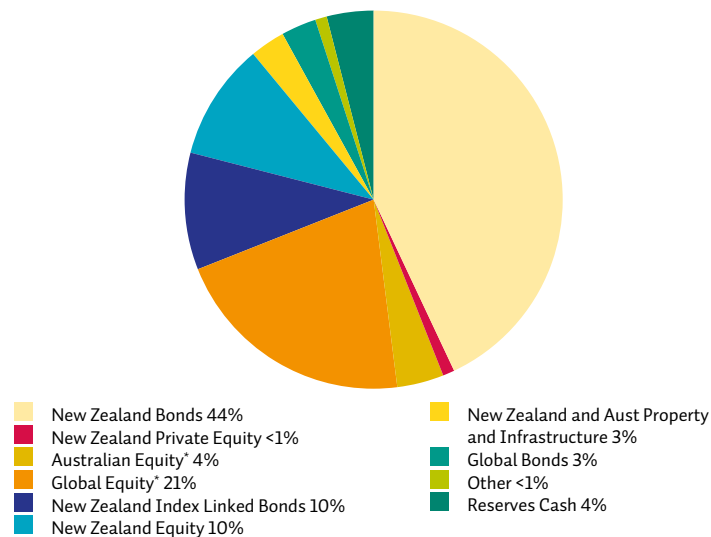
¹³ 'Real' long-term interest rates refers to 'nominal' long-term interest rates minus the anticipated inflation.

The investment allocations of the reserves portfolios differ by Account, reflecting the different funding positions, different projected growth rates, and different claims liability characteristics of the various ACC Accounts. Generally, rapidly growing Accounts have a higher percentage of their assets invested in equities than do those Accounts that have slower projected growth in investment assets.

As fully funded Accounts have investment portfolios that are several times as large as annual levy income, we must limit these Accounts' exposure to equity markets to avoid investment results causing excessive variability in levy rates. We have reduced ACC's overall weighting in equity markets by more than would have otherwise been the case because the Reserves Portfolio has more than doubled in size in the past four years.

The Board's Investment Committee sets long-term benchmark investment allocations for each Account's reserves portfolio, based on the advice of the Investment Unit. These benchmark allocations take account of both our long-term expectations for the returns from the various investment markets and the need to limit the Accounts' various risk exposures. Our investment staff may make short- or medium-term decisions to vary from these benchmark allocations, within risk control parameters set by the Investment Committee.

Composition of aggregate reserves



* The Global Equity and Australian Equity slices include effective exposure to equity markets obtained through futures contracts. However, this pie chart has not been adjusted for the effective exposure to bond markets arising from the use of interest rate derivatives as an asset allocation overlay. The effective exposure to bond markets through interest rate derivatives represented 10% of total reserves at the end of June 2013.

How ACC's investments are managed

Practically, we allocate funds between distinct investment portfolios that are focused on different investment markets. We aim to add value in how funds are allocated between different investment markets, and in how the portfolios perform within each investment market.

Our internal Investment Unit directly manages almost all of ACC's investments in New Zealand investment markets, and the majority of ACC's investments in Australia. Since April 2011, the Investment Unit has also been directly managing a small portion of ACC's investment in global equities. The manager of each portfolio aims to identify and take advantage of situations where some sector or security

within their market is being mis-priced in relation to its risks and prospects. We aim for consistent out-performance and seek to avoid exposing ACC to an above-average degree of market risk.

Most of ACC's foreign assets (and a large proportion of ACC's private equity investments) are outsourced to external fund management companies (despite this being more expensive) as this provides more diversity to ACC's portfolio, and allows our internal funds management team to focus on those areas where they have the greatest 'edge'. Over time, ACC has achieved strong results from both internal and external funds management.

Overlay strategies

Our Investment Unit also actively uses 'overlay strategies' to manage ACC's exposure to different investment markets. These are listed below.

- An interest rate derivatives overlay to obtain greater protection against declines in long-term interest rates than could easily be achieved through physical allocation alone. We want to ensure that ACC's investment returns will be strong in situations where long-term interest rates decline, as declines in long-term interest rates would result in increases in the assessed value of ACC's claims liabilities.
- Global equity futures to re-adjust ACC's overall exposure to equity markets on a daily basis as it is transactionally cheaper than buying or selling equities. However, when we make a long-term decision to allocate funds in or out of equity markets, we implement this through the purchase or sale of physical equities.
- Foreign exchange forwards and cross-currency interest rate swaps to manage ACC's foreign exchange exposures. ACC's benchmarks specify a neutral level of unhedged foreign exchange exposure, which is significant, but is less than our total allocation to overseas markets. Our Investment Unit may vary the extent by which ACC uses currency hedging, such that ACC may have net unhedged foreign exchange exposures that are either higher or lower than this neutral position.

We are conscious that ACC incurs credit exposure to counterparties when undertaking derivative transactions such as foreign exchange forwards or interest rate swaps. We aim to only use derivatives when there is no equally good alternative. We also have limits and controls governing derivative use and credit exposures.

Overview of the past year

This year saw strong local currency returns (averaging over 20%) from most developed country sharemarkets. The Japanese equity market was particularly strong, returning more than 50% in yen terms, although this was partly offset by weakness in the yen. Emerging market equities produced only modest returns.

The New Zealand dollar weakened against the US dollar and European currencies (thereby enhancing unhedged returns from investments in those currencies), but strengthened against the Japanese yen and the Australian dollar.

Sovereign bond yields rose sharply in the last quarter of the year, taking bond yields in most countries to levels that were significantly higher than a year ago. New Zealand bond yields rose by about 0.7%.

Future investment returns

The rise in New Zealand bond yields adversely affected our investment income this year, but it brings some relief in terms of the returns that we can anticipate from bonds in the future. In ACC's financial statements, this is reflected in a higher discount rate used to value ACC's claims liabilities, which in turn has a downward influence on the overall value of our claims liability.

We think the strong return from equity markets this year slightly reduces the prospect of strong equity returns in the future. Also, higher bond yields offer a more compelling alternative to equity investment than was available last year. Nonetheless, our judgement is that equity markets are likely to produce higher returns than bonds in the long term, and we continue to allocate a significant portion of ACC's portfolio to equity investments.

Investment returns for the 2012/13 year

ACC's reserves portfolios delivered an average return of 9.89% over the year.

This return is very pleasing in the context of the rises in bond yields that occurred during the year. In order to hedge ACC against the impact that falling bond yields can have on the value of its claims liabilities, ACC has a large investment in long-duration bonds, and also uses interest rate derivatives to extend this exposure. This approach has boosted returns in years when long-term interest rates have declined, but has an adverse effect on returns in years (like 2012/13) when long-term interest rates rise. We would not normally expect an investment return of as much as 9.89% in a year when long-term bond yields rose by 0.7%.

Our return for the 2012/13 year probably lagged the returns achieved by some other funds that have a greater amount invested in equity markets and don't have the large investment in long-duration bonds that ACC holds to help match its liabilities.

Our investment return exceeded the average return of ACC's market-based benchmarks by 1.49% over the year.

The reported returns are expressed prior to the deduction of 0.18% of investment-related costs, but they are depressed by offshore withholding taxes paid by ACC of 0.04%, whereas ACC's benchmarks make no deduction for withholding taxes. Taking account of both of these factors, we outperformed our benchmarks by 1.35% on a pre-tax net-of-costs basis.

This outperformance was the net result of various positive and negative contributing factors.

- ACC's internally managed bond portfolios significantly outperformed their benchmarks, accounting for the majority of our overall outperformance for the year. The portfolios benefited from a narrowing in yield spreads on non-government bonds, and from the strong relative performance of index linked bonds purchased during the year.
- ACC's foreign exchange positioning contributed +0.14% to relative performance. We chose to maintain a greater-than-neutral level of investment in unhedged foreign investments, and ACC therefore benefited when the NZ dollar declined against major currencies in the latter part of the financial year. In the table below, the benefit of ACC's foreign exchange positioning is included in the performance of the global equity and global bond asset classes.
- Apart from foreign exchange, ACC's other asset allocation positioning decisions also made a small positive contribution to relative performance in 2012/13.
- ACC's global equity portfolios outperformed their benchmarks by an average of +1.8% (excluding the benefit from ACC's foreign exchange positioning).

- Despite recording a strong absolute investment return of +29.9%, ACC's New Zealand equity portfolios underperformed their benchmarks by -1.2% due to the New Zealand equity portfolios having lower-than-benchmark weightings in some of the stocks that performed most strongly in the 2012/13 year.
- The Australian equity portfolio underperformed its benchmark, largely because of the way in which ACC had allocated funds between different portfolios. This meant that ACC's aggregated Australian equity portfolio had a higher weighting in smaller capitalisation resource companies than did ACC's benchmarks. Smaller capitalisation resource companies underperformed the broader Australian equity market by over 60% in 2012/13.
- The property and infrastructure asset class underperformed its benchmarks. This was principally due to the fact that returns from unlisted properties and unlisted infrastructure investments showed modest returns, whereas the portfolio is benchmarked against the performance of listed property and listed infrastructure, which generally showed strong returns.

Annual portfolio returns					
	2012/13 financial year			Average last 3 years	
	\$million	Portfolio	Benchmark	Portfolio	Benchmark
Cash portfolio	415	3.0%	2.7%	3.4%	2.8%
Reserves portfolios by asset class:					
Reserves Cash	474	3.2%	2.7%	3.2%	2.8%
New Zealand Index Linked Bonds	2,431	1.6%	-1.5%	5.9%	4.7%
New Zealand Bonds	10,652	2.1%	-0.1%	8.8%	7.2%
New Zealand Equity	2,292	29.9%	31.1%	16.0%	15.9%
New Zealand Private Equity*	104	12.5%		5.4%	
New Zealand and Aust Property & Infrastructure	754	12.1%	15.6%	14.4%	15.4%
Australian Equity	1,124	10.7%	14.1%	6.0%	4.5%
Global Bonds	715	11.4%	6.9%	12.6%	8.0%
Global Equity	5,494	24.3%	21.8%	9.9%	9.2%
Interest rate derivative overlay ¹	-9	-0.5%	-0.5%	0.4%	0.6%
Equity future overlay ^{1*}	72	0.0%		0.3%	
Total reserves	24,103	9.9%	8.4%	10.6%	9.6%
By Account:					
Earners'	6,258	9.3%	7.7%	10.2%	9.2%
Motor Vehicle	6,992	9.9%	8.4%	10.8%	9.9%
Work	6,018	9.4%	7.9%	10.6%	9.3%
Non-Earners'	2,583	11.2%	9.8%	10.9%	10.1%
Treatment Injury	2,253	11.4%	10.0%	11.1%	10.4%
Total reserves	24,103	9.9%	8.4%	10.6%	9.6%

¹ Percentages are expressed as contributions to the total Reserves Portfolio, rather than as a return on the funds physically invested in these derivative strategies.

* The benchmark weight is zero for these asset classes.

Please note:

Total reserves and cash are valued at last sale price. The investments in the financial statements are measured at fair value under IAS 39 requirements.

This table shows investment returns after the deduction of some direct costs such as commissions (brokerage) and costs directly relating to the management of specific property investments. However, returns are shown prior to the deduction of other investment management costs of \$37.51 million (including fees paid to external fund managers and the remuneration of ACC's investment staff), which effectively take 0.18% from investment returns in 2012/13. ACC's investment returns are shown net of tax, whereas the benchmarks make no allowance for tax. However, as ACC is not liable for tax in New Zealand, offshore withholding taxes paid by ACC reduced the return by just 0.04%.

Long term investment performance

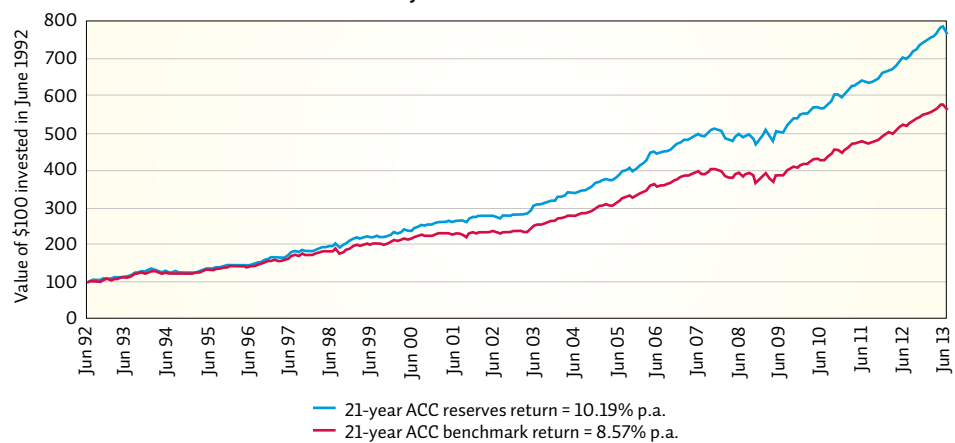
ACC has now been measuring the performance of its investment portfolios on a market-value basis for 21 years.

- The New Zealand bond portfolio has outperformed its benchmark in 20 of these 21 years that we have been measuring performance on a market-value basis.
- The New Zealand equity portfolio has outperformed its benchmarks in 18 of the past 21 years.
- ACC's overall Reserves Portfolio has also outperformed its composite benchmarks for 20 of the past 21 years, including outperformance in every one of the past 18 years.

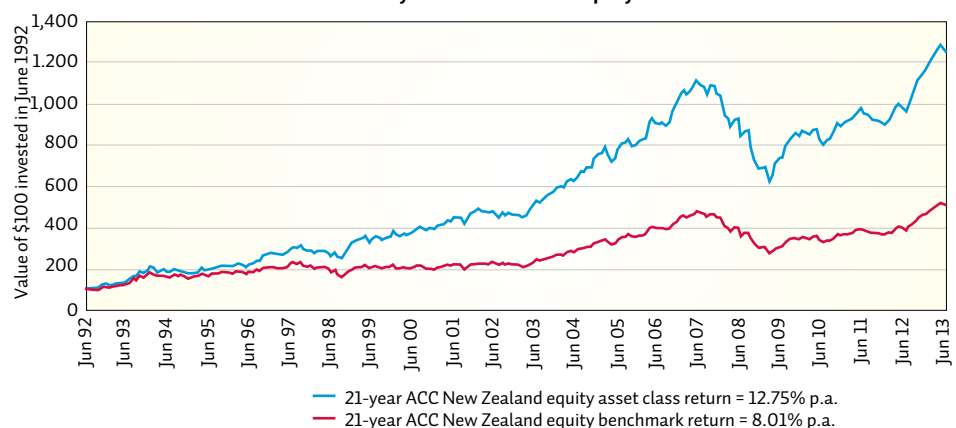
We are not aware of any other large diversified fund anywhere in the world that can match the consistency of ACC's Reserves Portfolio's outperformance during this turbulent period for investment markets¹⁴.

This has helped ACC's Reserves Portfolio to achieve compound returns of over 10% per annum for the past 21 years, which is higher than the returns that could have been achieved by passively investing in any major investment market over that 21-year period. Through the returns that ACC has achieved, every dollar that ACC had invested 21 years ago has effectively grown to be worth \$7.67 today.

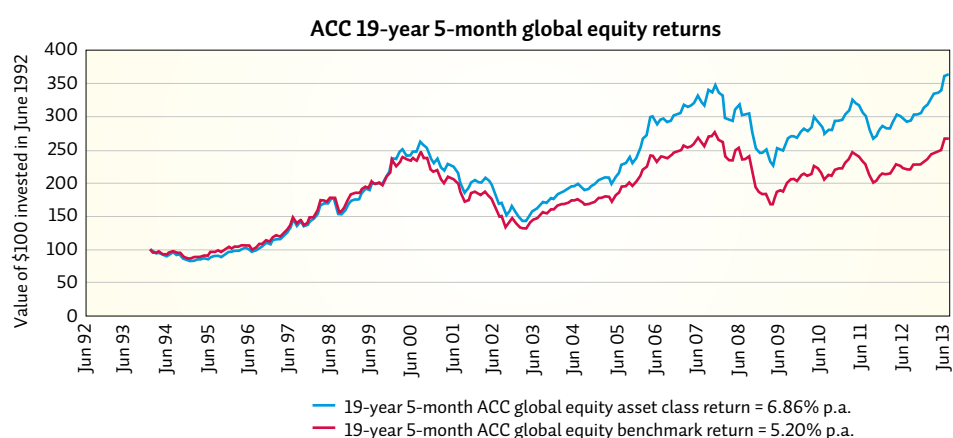
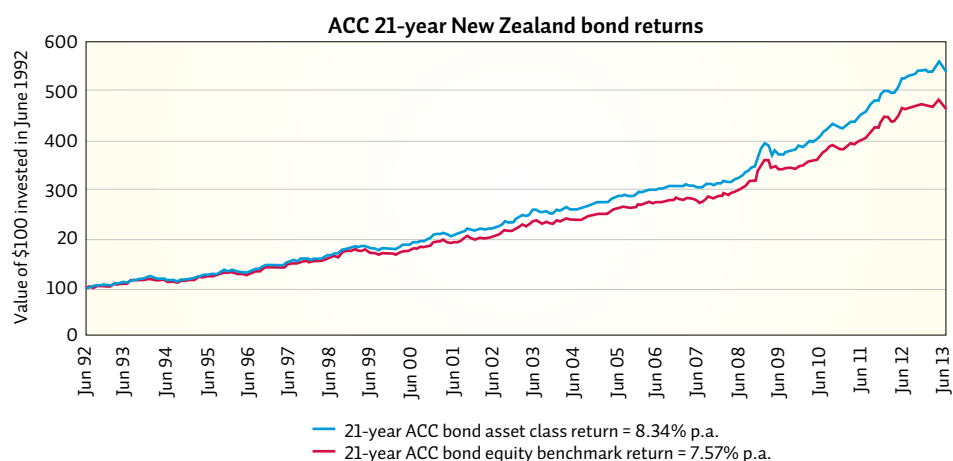
ACC 21-year Reserves Portfolio returns



ACC 21-year New Zealand equity returns



¹⁴ ACC is aware of only one other investor who has ever beaten their benchmark for 18 consecutive years – Warren Buffett, who outperformed the United States share market for 18 consecutive years twice: from 1957 to 1974 at Buffett Partnership (1957-1969) and Berkshire Hathaway (1970-1974); and again from 1981 to 1998 at Berkshire Hathaway. However, the results from Berkshire Hathaway are not pure investment returns, as they represent growth in book value per share, which is affected by Berkshire Hathaway's insurance business and other operating businesses.



Growth in ACC's investment portfolios

ACC's reserves portfolios increased in value by 18% from \$20.4 billion last year to \$24.1 billion at the end of June 2013. This growth came from a combination of investment returns and adding extra funds from the surplus of levy income over Scheme expenditure.

We have been running an operating surplus to grow the investment portfolio until ACC has sufficient funds to cover the claims liability. During this year, many ACC Accounts achieved this 'fully funded' status, which should allow ACC to reduce levy rates in the future.

Looking forward, beyond 2014, ACC's investment assets should only need to grow at about the same long term rate as the growth in claims liabilities, which are projected to grow at between 4% and 5.5% per annum over the next decade. We hope to be able to achieve this future growth in investment assets purely out of investment income. However, this is not an easy task whilst long-term interest rates are yielding less than 4.2%.

Investment benchmarks

Like most other fund managers, we compare the make-up and performance of ACC's investment portfolios against market-based benchmark indices. These benchmarks indicate how we would expect to invest ACC's funds if we did not have any views on the likely relative performance of different securities within

a market. Accordingly, it is important that the benchmarks represent sensible starting points for the construction of portfolios that meet ACC's needs. In many cases, a recognised market benchmark is appropriate for ACC, but in other cases we manage ACC's portfolios against a different benchmark which better reflects objectives or market focus. For example, the high interest rate sensitivity of our claims liabilities means that ACC needs a highly interest-rate-sensitive bond portfolio, so we manage the New Zealand bond portfolio against a benchmark index that only includes bonds with more than five years remaining to maturity.

As well as indicating a neutral starting point for the management of our portfolios, benchmark indices are useful for assessing portfolio performance, as they allow us to differentiate the element of a portfolio's returns that are due to generalised market conditions from the relative value that has been added or subtracted in the management of that portfolio.

The Reserve Portfolios belonging to ACC's various Accounts are measured against composite benchmarks, which represent a weighted composite of the benchmarks for the various investment markets in which those Reserve Portfolios may invest. The benchmark weightings used for calculating the Reserves Portfolios' benchmarks are typically reviewed each year, and are intended to reflect a sensible starting point for the allocation of each Account's funds, based on the financial position of these Accounts and the pricing of investment markets at the time of each review. Benchmark allocations between investment markets have changed several times in the past 21 years.

It could be argued that changes in ACC's composite benchmarks over time make it more difficult to measure performance than would be the case if ACC had always compared itself with the same unchanging 'reference portfolio' an approach that is taken by many other funds. However, ACC aims to encourage its investment team to think about allocating between markets based on the factors that are relevant today, and to avoid having allocation decisions distorted by a reference portfolio based on factors that may have changed since the reference portfolio was fixed. This is particularly important for ACC, as large changes in ACC's funding position over the past decade have had a significant impact on appropriate benchmark for ACC's investment activities. For these reasons, we have elected not to adopt a fixed 'reference portfolio'.

We believe that our changing asset allocation benchmarks have represented a tougher hurdle for measuring performance than any fixed reference portfolio that we might have adopted in the past. This is supported by the fact that the 21-year-return from ACC's reserves portfolio benchmarks have been stronger than the returns that would have been achieved by passively investing in New Zealand cash, New Zealand bonds, unhedged global bonds, New Zealand equities or global equities over the 21-year period.

Probability of negative returns

A typical risk analysis based on the past performance of investment markets and the current composition of ACC's portfolio would suggest that each year there is roughly a one-in-five chance that we could record negative returns. In reality, we have had just one financial year of negative returns in the past 21 years (2007/08, when the Reserves Portfolio returned -0.8%).

Statistical analysis based on the past two decades would suggest that over any given year there is less than a 1% probability that ACC will record returns of -10% or worse. However, we believe that it is wise to assume that the probability of negative returns of this magnitude could be higher than suggested by this analysis.

There are two primary factors that contribute to the risk of negative returns.

- A rise in bond yields of about 0.9% could result in ACC recording negative investment returns. However, ACC's overall funding position would improve as a result of a rise in bond yields, as the claims liability would decrease by an even greater amount than the decline in investment income.
- Based on current policy, ACC's Accounts will typically have an average of 38% of their reserves' funds effectively invested in equity markets. This means that, all else being constant, a generalised decline in foreign and domestic equity markets of approximately 9% or more would tend to result in ACC recording negative overall investment returns.

ACC's investments in individual companies or securities are generally too small to significantly endanger total investment returns in a single financial year. ACC holds just three equity investments that individually represent more than 0.5% of the reserves portfolio (i.e. \$120 million). The only individual credit exposures representing more than 1% of the Reserves Portfolio (i.e. \$240 million) are to the New Zealand Government, some New Zealand registered banks with strong credit ratings, the Local Government Funding Authority, and the Auckland Council.

ACC's 50 largest equity investments

Company name	ACC's investment value (NZ\$million, under IFRS)
Fletcher Building	195.3
Telecom Corporation of New Zealand	154.4
Auckland International Airport	150.4
Sky City Group	116.3
Infratil	109.7
Kiwi Income Property Trust	108.5
Fisher & Paykel Healthcare	102.8
Contact Energy	102.5
Sky Network Television	86.6
Ryman Healthcare	84.4
Westpac Banking Corporation	82.9
Commonwealth Bank of Australia	81.6
Precinct Properties New Zealand	75.9
Australia & New Zealand Banking Group	69.3
Goodman Property Trust	68.3
LVMH Moët Hennessy Louis Vuitton	68.2
Google	67.7
Trade Me Group	67.7
Mighty River Power	67.3
Danone	62.5
Chorus	61.6
Mainfreight	60.9
Reckitt Benckiser Group	57.1
Argosy Property	57.0
Procter & Gamble	56.3
National Australia Bank	54.6
Nestlé	53.9
Nuplex Industries	53.8
Danaher Corporation	53.3
Pernod Ricard	52.4
United Technologies	51.9
Guinness Peat Group	49.7
DNZ Property Fund	49.5
Rio Tinto	49.0
Schlumberger	48.9
Compass Group	48.2
Telstra Corporation	46.4
Templeton Emerging Markets Investment Trust	46.2
Accenture	46.1
Colgate-Palmolive Company	45.8
BHP Billiton	45.5
CSL	44.7
Ebos Group	44.2
Johnson & Johnson	43.4
Visa	43.2
Oracle Corporation	42.2
McDonald's Corporation	41.7
Woolworths	41.0
CVS Caremark	40.3
Occidental Petroleum Corporation	38.9

Ethical investment policy

ACC has an ethical investment policy that requires our investment activities to be conducted in an ethical manner that avoids prejudice to New Zealand's reputation as a responsible member of the world community.

We apply ethical principles that, in our judgement, are widely held by the New Zealand public. The spirit of New Zealand laws is used as a guide to reflect the ethical views of the New Zealand public, together with the values and principles set out in the United Nations (UN) Global Compact and UN Principles for Responsible Investment (UN PRI).

The ethical investment policy sets out the following framework.

- ACC engages with companies that have serious environmental, social or governance issues in order to modify corporate behaviour and improve performance in relation to ethical issues. This is undertaken directly with the companies or in collaboration with other Crown Financial Institutions, other investors or the UN PRI Engagement Clearinghouse.
- We don't invest in companies that undertake activities that are repugnant to the laws of New Zealand and exhibit corporate behaviour that seriously breaches ethical/responsible investment standards. This includes tobacco companies and those involved with the development and/or production of anti-personnel mines, cluster munitions and nuclear explosive devices.
- We encourage our fund managers to cast proxy votes in a manner that is consistent with the principles of good corporate governance and with the ethical investment policy.

UN Principles for Responsible Investment

ACC became a signatory to the UN PRI in March 2008. These principles provide investors with a framework to incorporate environmental, social and governance issues into their investment decision-making and ownership practices. As a signatory we are committed to adopting and implementing the principles where consistent with our fiduciary responsibilities.

Agreement with other Crown financial institutions

In 2009 ACC signed an agreement with the Guardians of New Zealand Superannuation, the Government Superannuation Fund Authority and the Earthquake Commission to collaborate and share resources on responsible investment issues. The Earthquake Commission withdrew from these arrangements in 2012. Each Crown Financial Institution retains responsibility for its individual ethical/responsible investment policies and decisions.

Appendix 2 – Risks

The following tables detail current key societal and organisational risks, inclusive of control and treatment actions, incorporating risks identified in the Statement of Intent.

Table 1: Societal risks

Risk	Controls and treatments
If provision of rehabilitation services to injured people is ineffective or inefficient, individuals' productivity could be reduced and, participation of the injured in the general community could decline while burdens on support networks increase. Long term, significant variations in rehabilitation performance could lead to increased costs of claims and growth in the number of long-term claims.	Rehabilitation performance remained positive throughout 2012/13 due to continued improvements to claims management processes. These include: <ul style="list-style-type: none"> • Client Centric Service Design • improvements to certification processes • continued development of claims management services to ensure that clients receive the right services at the right time.
If financial performance significantly deteriorates, increasing the financial burden of the Scheme on the Crown accounts and the economy, levy rates could become unsustainable.	Transparency of financial information has increased, specifically regarding reporting of funding adequacy for individual levy years, as provided in the Financial Condition Report. Capability to proactively monitor and therefore influence risks is in development. <p>Claims Management group has implemented a quality monitoring approach to ensure coverage and entitlement decisions are made consistently within the boundaries of the legislation. This, along with work to improve the way review applications are managed, is designed to improve consistency in the cover and entitlement decision-making process.</p>
If ACC's initiation, facilitation and promotion of injury prevention are ineffective, opportunities to prevent injuries could be lost; injuries and claims costs may rise, resulting in higher levy costs and a less safe New Zealand.	Development of an action plan for the New Zealand Injury Prevention Strategy will ensure a cross-government approach to the prevention of injury across key priority areas, while ACC continues to develop interventions that measure the effectiveness of injury prevention activities. Experience rating and development of risk-sharing levy options aimed to incentivise safer behaviours, and lower injury rates. Current activities include: Young Driver initiative, Vitamin D for older adults, and interventions for specific industries and priority sports.

Table 2: Organisational risks

The rating scale for these risks ranges from low to very high, based on both the estimated likelihood of an incident occurring and its impact. The reported overall rating reflects the risk after current controls have been taken into account.

Risk	Rating	Controls and treatments
If information is inappropriately managed, privacy could be compromised, leading to increased privacy concerns, reduced stakeholder confidence, customer and staff stress.	Very High	ACC is committed to improving privacy management, working progressively towards implementing all recommendations of the independent review of ACC's privacy and information security policies. A number of short-term initiatives have been implemented to reduce the potential for privacy breaches. Development of a focused change programme to improve our information management practices continues, and will address the underlying causes of improper information disclosure. A Privacy Team has been established to provide expert guidance and information to ensure staff understand their obligations around the management of personal information.
Risk that long-term investment performance declines, such that ACC has to charge higher-than-projected levy rates in order to achieve the target funding position.	High	ACC invests in a global market and returns are necessarily tied to the overall performance of investment markets. Investment policy is designed to manage the risk of having to raise levy rates significantly, in the context of the overall risk return trade-off. One significant risk to long-term returns is that bond yields decline. ACC partially protects itself against this risk by holding a long-duration bond portfolio and by maintaining an interest rate derivative overlay. These would increase in value if bond yields decline, therefore providing some offset against the lower returns that ACC would expect after yields had declined.
If claims operational performance significantly deteriorates, rehabilitation and treatment outcomes could decline, leading to future claim costs exceeding management expectations.	Medium	ACC is continuing to improve its claims management processes and approach to client service. This includes improving the quality and consistency of clinical advice and changing the service delivery model to ensure that clients have faster access to services to meet their individual needs. ACC is taking a more customer-focused approach to the management and resolution of reviews and complaints, which will drive consistent best practice across the country and improve the client experience and client rehabilitation outcomes.
If ACC's response to a significant business disruption is inadequate, internal, public and government demands and needs may not be effectively met.	Medium	ACC is in the process of completing an extensive organisation-wide review and regeneration of business continuity capability, with a particular focus on core functions. As a result capability and capacity are being strengthened to further reduce the impact and likelihood of this risk.

Risk	Rating	Controls and treatments
If provider cost levels and client utilisation undergo sustained major increases, quality service or treatment could become financially unsustainable for the Scheme.	Medium	ACC is continually developing effective relationships with health providers to enhance performance and achieve quality outcomes. In parallel, improvements are being undertaken in medical certification and client treatment referral processes and pathways.
If the portfolio of change programmes does not achieve the organisation's strategic objectives, service offerings to New Zealanders could be inadequate, and opportunities to improve public trust and confidence could be lost.	Medium	ACC is committed to the implementation of continual sustainable improvement. Projects and the overarching programme of change are progressed under formal governance structures, with Executive Management Team oversight and visibility through to Board level.
If the health and safety of ACC staff is compromised at work, or in relation to ACC but outside the workplace, staff could experience serious harm.	Medium	Providing staff with a safe workplace is a key priority. ACC has an extensive health and safety framework and incident reporting system, which is in the process of being further enhanced. Incident rates have been declining.





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