PREVENTION. CARE. RECOVERY.

Te Kaporeihana Āwhina Hunga Whara

Annual Report 2014

Accident Compensation Corporation

How the Scheme works for you

2013/14 Actual

How you contributed last year

All New Zealanders contribute

Employers
Invoices sent by ACC
Levies paid by employers
$1,029m
Work account
Pays for injuries caused at work

Employees
Tax deducted from PAYE
Invoices sent by ACC
Levies paid by self-employed
$1,406m
Earners' Account
Pays for injuries caused outside work

All New Zealanders
Levies collected through the Earners' Account and Government funded from general taxation
$324m
Treatment Injury Account
Pays for injuries caused by medical treatment

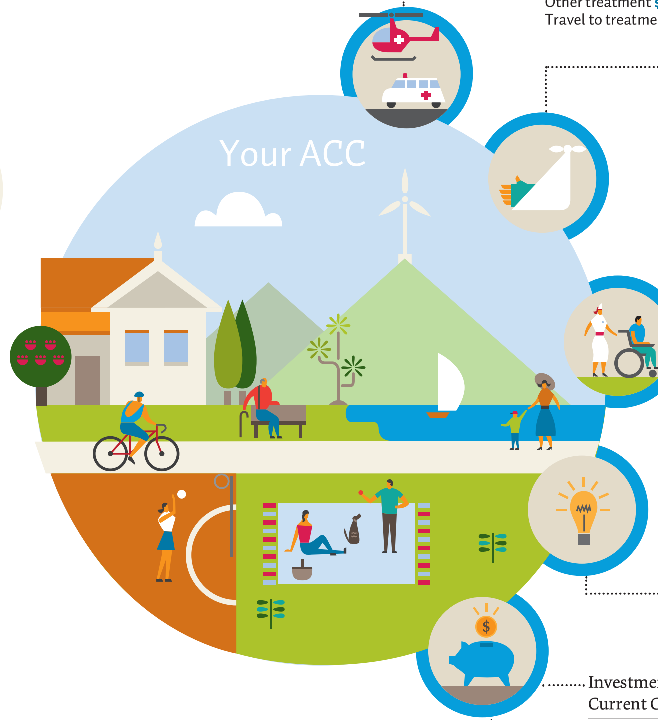
Not Employed
General taxation
Government funded
$907m
Non-Earners' Account
Pays for injuries caused outside work to people not in the paid workforce

Motor Vehicle Owners and Drivers
Petrol tax and motor vehicle licensing fee
$1,065m
Motor Vehicle Account
Pays for all road-related injuries

ACC's Investment Earnings
$1,618m

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

How you benefited last year



Treatment and Emergency Travel
$1,396m
Visits to a doctor or GP $127m
Physiotherapy $103m
Imaging including X-rays $105m
Hospital accident and emergency $450m
Surgery $282m
Other treatment $242m
Travel to treatment $87m

Financial Compensation and Vocational Rehabilitation
$1,096m
Financial compensation $1,037m
Rehabilitation to help people back to work $59m

Care and Support
$455m
Rehabilitation back to independence $224m
Carers who support those in the home $206m
Home and vehicle alterations $25m

Injury Prevention
$34m

Investment for Future Costs of Current Claims
$27,368m

ACC's financial position at 30 June 2014

$27,588m	–	$27,696m	=	– $108m
Assets and investments that ACC currently has (net assets excluding outstanding claims liability)		The amount ACC needs to cover the cost of current claims (outstanding claims liability)		The gap between what ACC has and what ACC needs (net liabilities)

Contents

Introduction

From the Acting Minister for ACC

The Accident Compensation Corporation (ACC) is celebrating its 40th anniversary this year. Established in 1974, ACC is a unique organisation that provides no-fault accident insurance for New Zealanders and visitors. It is one of the most innovative and far-sighted initiatives of its kind.

I acknowledge the legacy of the late Sir Owen Woodhouse in the establishment of ACC. He and other members of the 1967 Royal Commission on Workers Compensation crafted the beginnings of the ACC Scheme we have today. The Government is committed to maintaining this legacy as ACC moves into its fifth decade.

The original goals of injury prevention, rehabilitation and workers compensation remain at the centre of the Scheme. Each one is important and we will ensure ACC delivers on them all. Most injuries are preventable and recently we have focused on lifting ACC's results in this area. The cross-government injury prevention approach, put in place this year, will contribute significantly to this.

New Zealanders and the Government have clear expectations of how public services should be delivered. ACC is expected to focus on improving public trust and confidence in the Scheme. Services to clients and levy-payers need to be responsive, transparent, effective and value for money. Agencies must be easy to deal with, particularly online. These expectations have been outlined to the ACC Board.

This past year ACC has put in place the foundations for ongoing change. By surveying more than 5,500 New Zealanders, ACC has obtained an excellent understanding of what is required to meet the public's expectations. A number of services have been redesigned to increase client satisfaction and public confidence.

Yet again ACC delivered another year of investment returns above market benchmarks. ACC's financial results continue to be strong and solvency has further improved. This has enabled the Government to approve levy reductions across all three levy accounts.

While client satisfaction improved this year, we saw a small dip in rehabilitation performance. However ACC's performance remains comparable to similar organisations in Australia. This is expected to be a continued area of focus for ACC, particularly in the light of increasing claim volumes.

I thank and acknowledge the ACC Board for their efforts, especially the Chair, Paula Rebstock. I would also like to acknowledge John Meehan who concluded his service with ACC this year, and formally welcome Professor Gregor Coster who joined the Board as co-member in December 2013. As Chair of WorkSafe New Zealand, Professor Coster will help ensure ACC and WorkSafe New Zealand activities are well aligned. In July 2014, the Board also welcomed Anita Mazzoleni as a member.

I want to extend my thanks to everyone in the ACC team for their fantastic commitment to the goals of the Scheme and the well-being of New Zealanders.

Hon Craig Foss
Acting Minister for ACC

From the Board

This year saw the start of a significant programme to transform the way we care for injured people and deliver services. Our customers told us in late 2013 that we could be more responsive, transparent and easier to deal with. We will be making a significant investment over the next three years to deliver a quality service for our customers.

We're pleased to see that client satisfaction and public trust and confidence have improved this year although we recognise there is more we can do. Opportunities to redesign services were identified and are currently in different stages of implementation, for example a new integrated service for sensitive claims is due to start in October 2014.

We have lifted our customers' voice to the executive management team, with our first Chief Customer Officer being appointed. The Chief Customer Officer will work alongside the newly created post of Chief Operating Officer to ensure that we deliver on our customer promises.

We were also pleased to see the number of privacy breaches continue to fall this year, with a rolling three-month average of 19 breaches per month by June 2014. This reflects the significant efforts of our people, who treat all client information with care as if it were their own.

Claim volumes have increased more than expected this year. This put pressure on our ability to maintain previous high levels of rehabilitation performance (the length of time it takes people with injuries to return to independence). Actions will be taken over the next year to enable us to be more responsive to changes in claim volumes in order to maintain good rehabilitation performance. This is important, as research confirms that when people make a rapid return to independence after injury their overall health and wellbeing is significantly improved.

Solvency has continued to improve and we are on track to meet the target of being fully funded by 2019. Levies were reduced in 2013/14 and the Board recommended further levy reductions for 2014/15. New Zealanders can continue to be confident in the financial sustainability of the Scheme.

Injury prevention has been an area of focus for the Board. A new investment approach for injury prevention activities was put in place this year. It will take some time for programmes approved under the new framework to deliver results, but we will continue to monitor the overall effectiveness of our activities and target a reduction in entitlement claims over time.

Scott Pickering, Chief Executive, completed his first full year in the role. With Board support, he has led the start of a significant transformation programme that will deliver great results for New Zealanders in the future. We were also delighted that our staff recorded such high engagement results this year. The Board would like to thank Scott and all staff for their efforts this year.

These are exciting times for ACC. Looking forward, we will invest in our systems, people and processes in order to provide a service that meets our customers' expectations.

Paula Rebstock
ACC Chair

Trevor Janes
Deputy Chair

From the Chief Executive

My first full year with ACC has been focused on understanding what our customers expect and how we can improve the quality of the services they receive.

Since arriving I've been struck by the passion and commitment of our staff, who do their best every day for our customers. However, it's fair to say they haven't always been well supported by our technology systems, and the way we operate has sometimes made it harder for them to deliver the very best service. We have also had feedback from the Auditor-General that some people do not receive the standard of service they expect from ACC and that our communication is not always effective.

In response we have started a long-term transformation programme to improve the way we deliver our services, and ACC will act on the Auditor-General's recommendations about our complaints system.

This is as important as ever in the context of the increasing claim volumes we have experienced this year. We must be more flexible in responding to changing demands for our services while providing a consistent level of customer service for each and every customer.

Significant change won't happen overnight, but we have already taken a number of steps to make things easier for our clients to work with us and I'm pleased that both client satisfaction and public trust and confidence have improved this year.

Putting the customer at the heart of my leadership team

In June 2014 the executive management team was restructured in order to give the customer a voice at the leadership table through the position of Chief Customer Officer. This will ensure that the Executive is united in a common purpose to meet customers' needs and expectations.

I'd like to thank both past and present members of the Executive who have been tireless in their dedication to and support for our unique Scheme.

Rethinking our approach to injury prevention

I'm excited about both the cross-government injury prevention work plan and our new investment framework for injury prevention programmes. Both of these will enable us to make the best use of the resources and skills that exist in New Zealand and work more effectively with both government and non-government agencies and communities. In particular, it's great to see our teams focusing on improving engagement with Māori across all aspects of our business.

Continuing focus on returning people to independence

An unexpected increase in the number of claims has made it harder for our team to maintain the previous high levels of rehabilitation performance. We have already taken action to address this and to put in place the right resources to meet the increased demand. This will be an area of sustained focus for us to ensure that we continue to help our clients to achieve the best rehabilitation outcomes for them.

Engaged and committed workforce

This year we have achieved the highest ever recorded result for staff engagement within ACC, and this puts us in the top 30% of government agencies. This is the result of our employees working hard to make ACC a great place to work. An engaged workforce will deliver better services for our customers and this is reflected in our results this year. I'm truly grateful to all our people for their efforts.

Looking to the future

This is an exciting time to be at ACC. I continue to be amazed by the stories from our clients, many of whom have faced significant adversity but continue to focus on their own personal goals. I'm proud to lead an organisation like ACC that helps them to do this.

I know that we can improve further to make it easier for our clients, providers and levy payers to work with us and I'm committed to continuing to improve our customers' experience with ACC.

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 injury prevention initiatives and 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 exchange for comprehensive accident insurance cover and compensation.

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, those who participate in injury prevention activities, and of course those who are injured.

Our outcomes for 2013-2016

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

Our outcomes for 2013–2016 were:

- reduce the incidence and severity of injury in New Zealand
- rehabilitate injured people in New Zealand more effectively
- New Zealanders in need receive the services they are entitled to.

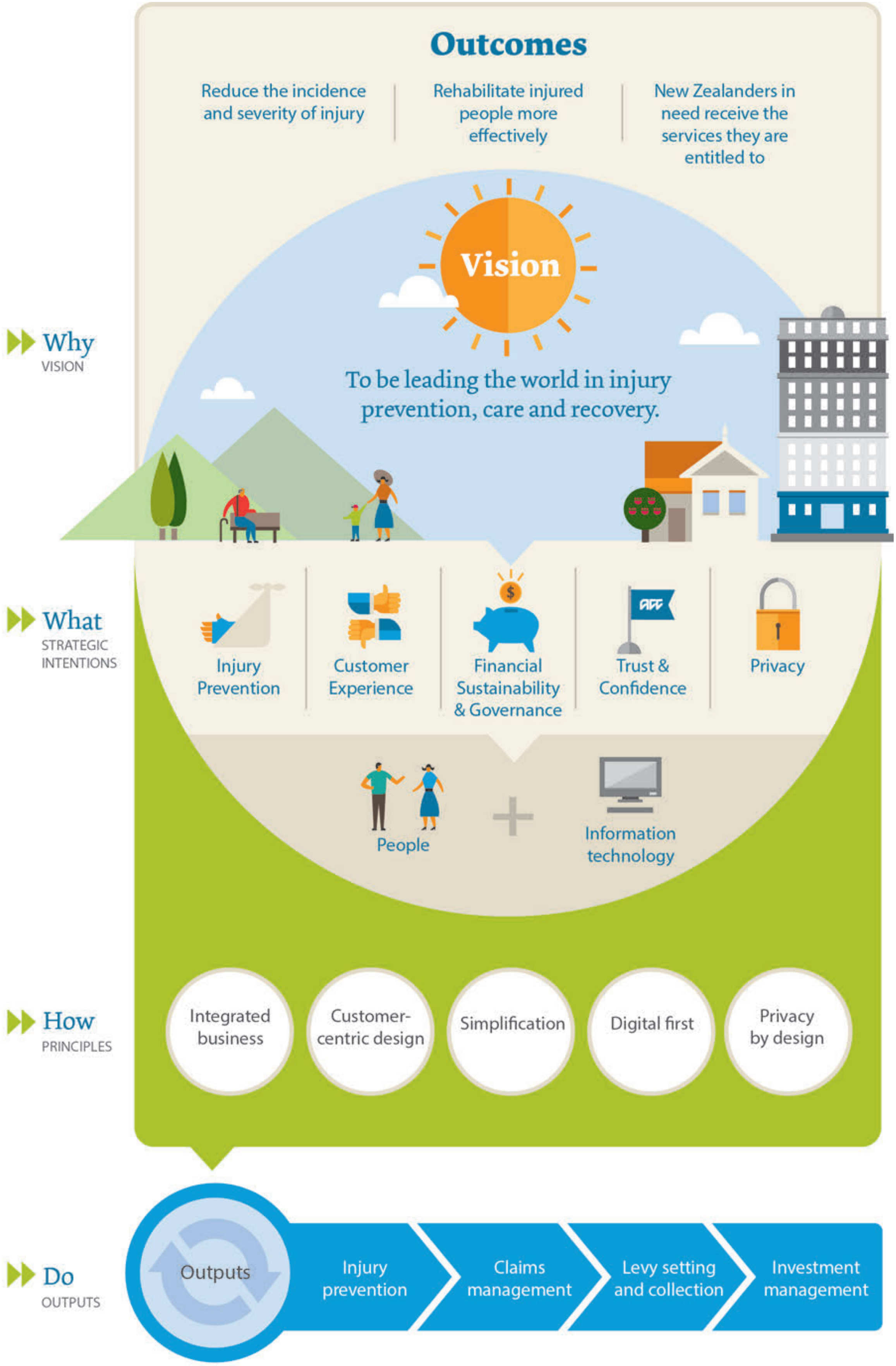
Our strategic intentions for 2013/14

We have five strategic intentions that define the areas on which we focus in order to deliver on our vision and outcomes.

For 2013/14 our strategic intentions were to:

- increase the success of **injury prevention** activities
- improve our **customers' experience**
- lift the public's **trust and confidence** in ACC
- significantly reduce **privacy** breaches
- maintain the **financial sustainability and governance** of the Scheme.

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, including Better Public Services Result Areas 9 and 10.


Outcomes
Reduce the incidence and severity of injury
Rehabilitate injured people more effectively
New Zealanders in need receive the services they are entitled to
Why
VISION
Vision
To be leading the world in injury prevention, care and recovery.
What
STRATEGIC INTENTIONS
Injury Prevention
Customer Experience
Financial Sustainability & Governance
Trust & Confidence
Privacy
People
Information technology
How
PRINCIPLES
Integrated business
Customer-centric design
Simplification
Digital first
Privacy by design
Do
OUTPUTS
Outputs
Injury prevention
Claims management
Levy setting and collection
Investment management

Shaping our future

ACC is undergoing a three-year transformation to improve the service we provide to New Zealanders. Shaping Our Future is about us looking through the eyes of our customers and making ACC more efficient and effective, and rebuilding the public's trust and confidence.

It's also about giving our customers more choice in how they interact with us.

This year we undertook surveys and workshops with over 5,500 New Zealanders right across the country to find out what they thought of ACC and what we could do better.

They told us they want ACC to be more responsive, transparent and easier to deal with. We listened and have started making changes to ensure customers are at the heart of what we do.

New vision and values

- A new vision and values have been developed and will be introduced later in 2014. This ensures we start our transformation with a shared vision for the future and a common understanding of what great customer experience is.

New Executive team structure

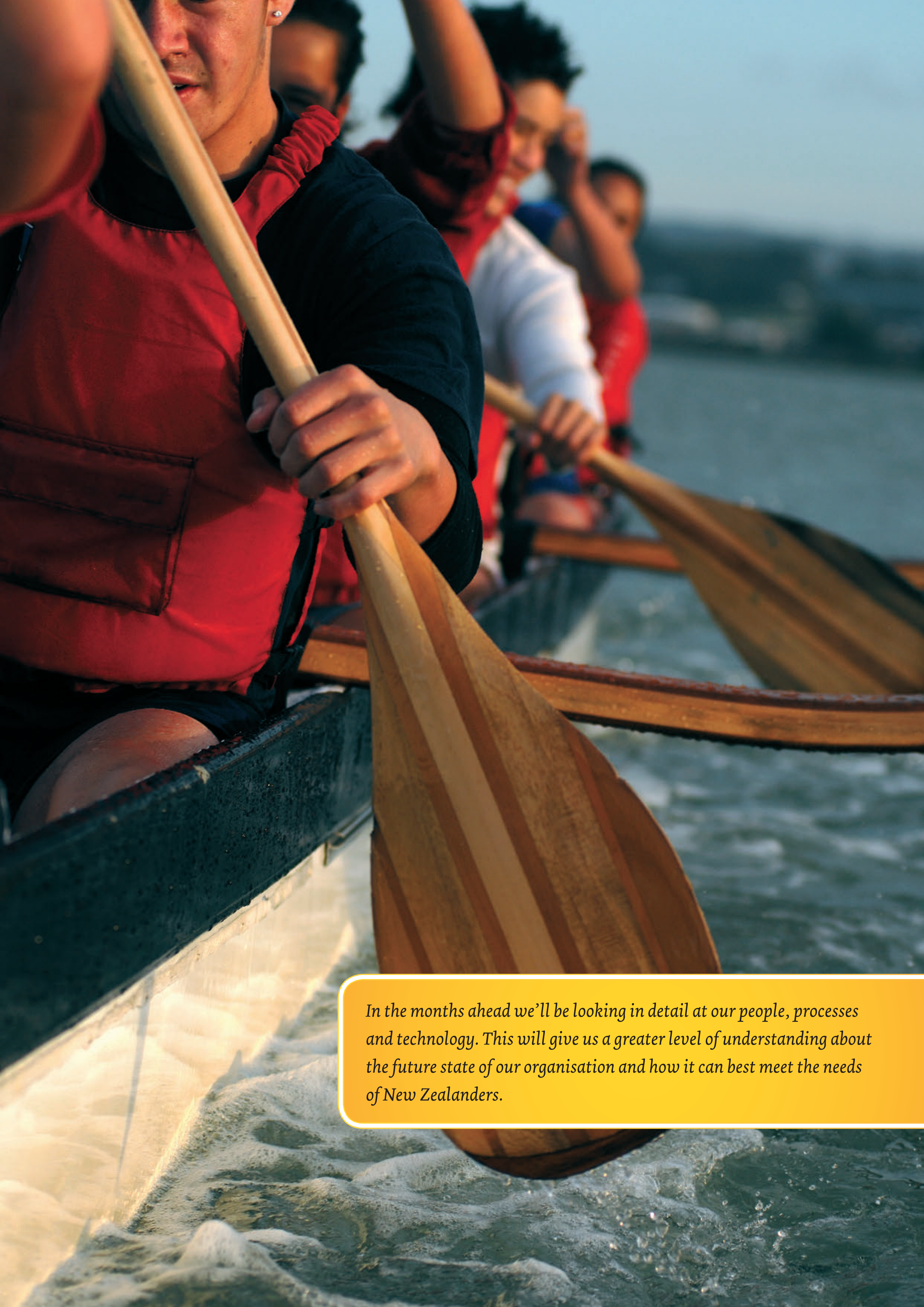
- Putting the customer perspective at the heart of our business to help us deliver a better end-to-end customer experience starts at the top, so the first step was to review responsibilities at the executive level. In June 2014, we raised the customer perspective to the Executive team through the creation of the Chief Customer Officer role. This will help ensure the Executive is united in a common purpose to meet customers' needs and expectations. We also created a Chief Operating Officer role to ensure there is sufficient focus on our core activities. The new Executive team will be operational from 1 September 2014.

Commenced the process to identify a technology provider

- In order to deliver a better experience for customers, and to offer them more choice and less effort in their interactions with us, we need to ensure that our systems and technology enable us to do this. In January 2014, we went out to market to look at options for core systems to improve our ability to serve all our customer groups – claimants, employers and providers. We expect to be able to announce our preferred technology vendor later in 2014.

Redesign of selected services

- We have been working to address processes that were identified in our research as priority areas for customers, for example levy invoicing and weekly compensation.



In the months ahead we'll be looking in detail at our people, processes and technology. This will give us a greater level of understanding about the future state of our organisation and how it can best meet the needs of New Zealanders.

Our performance this year[1]

Category	Measuring our contribution to New Zealand	Actual 2012/13	Actual 2013/14	Status	Target 2014/15
 **Reach** How many New Zealanders do we help?	Number of new entitlement claims per 1,000 population	23	24		25
	Percentage of population who receive compensation or rehabilitation services	29%	30%		30%
 **Customer** Do we meet expectations?	Cover decision timeliness	1.3 days	1.2 days		1.3 days
	Average time to commence payments	10 days	11 days		<11 days
	Formal reviews as a percentage of entitlement claims	4.3%	3.3%		2.9%
	Percentage of ACC reviews upheld	81.3%	84.5%		84%
	Average time to resolution for claims with reviews	87 days	91 days		87 days
	Public trust and confidence	47%	54%		60%
	Customer satisfaction – clients	68%	75%		76%
	Customer satisfaction – levy payers	New	59%		60%

1 *ACC adopted a public value approach to measuring performance during the 2013/14 year. Whilst not all of these measures were included in ACC's 2013–2016 Statement of Intent, we have chosen to report our performance against them this year as they present a balanced picture of ACC's performance. As many of these are new measures, no target was in place for the 2013/14 year. All measures within the 2013–2016 Statement of Intent have been reported against in the statement of service performance.*

Category	Measuring our contribution to New Zealand	Actual 2012/13	Actual 2013/14	Status	Target 2014/15
 **Impact** Have we delivered?	Return to work within 10 weeks	70.3%	67.8%	👎	70.3%
	Durable return-to-work rate	78%	77%	👎	1% higher than Australia
	Return to independence for those not in the workforce	83%	86%	👍	86%
	Number of long-term clients returned to independence in the past 12 months	2,470	2,272	👎	2,424
 **Cost effectiveness** Are we fair and affordable?	Total ACC levies to gross domestic product	2.2%	2.2%	👉	1.9%
	Health $ per injury – annual growth*	0.13%	3.0%	👎	3.5%
	Ratio of this year's total levies to the total claims incurred for this year's accidents over time	1.3	1.2	👍	0.9 - 1.10
	Funding ratio	91.7%	99.6%	👍	103.4%
	Investment performance (after costs) above benchmark	1.33%	0.10%	👎	0.3%

**Targets are based on outstanding claims liability inflation assumptions*

👍 Performance has improved from the prior year

👎 Performance has deteriorated from the prior year

👉 Performance is maintained

Increasing claim volumes

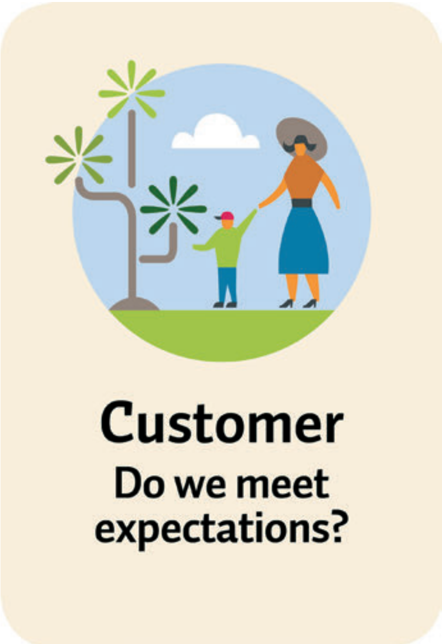
2013/14 was a period of increasing claim volumes, with the number of entitlement claims per 1,000 of the population increasing to 24 (from 23). Economic growth has influenced this.

...encourage a new approach to injury prevention

We have implemented a new approach to investment in injury prevention programmes, with each new programme being assessed against four criteria (value, strategic fit, execution effectiveness and benefit-realisation).

We led the development of the cross-government injury prevention work plan, recognising that injury prevention works best when all relevant stakeholders work together. The work plan was agreed by Cabinet in December 2013 and work involving key government partner agencies has now started.

We have established a workplace injury prevention partnership with WorkSafe New Zealand to work together to deliver a measurable improvement in fatal and serious injury rates and occupational health.



Client satisfaction is improving and above target

Clients have told us that our actions are improving their experience with ACC. Client satisfaction has improved from 68% to 75% and was above target. The number of complaints received has reduced by 17% and the percentage of entitlement decisions going to formal review has declined. Privacy breaches have halved again this year.

...but there is more to do

Whilst the direction of client satisfaction is pleasing, there is more that we can and will do to improve our customers' experience. A number of our service and efficiency challenges are linked to the technology platforms we use. This will require a significant investment over the next three years to deliver the improvements in client and levy payer satisfaction that we are aiming for.

Impact
Have we delivered?

Rehabilitation performance has been under pressure with increasing claim volumes

Sustained growth in claim volumes has put pressure on our rehabilitation performance, with a slight deterioration in the rate of clients who are returned to independence within 70 days (67.8% compared with 70.3% last year) and at 273 days (93.3% compared with 93.9% last year).

We are taking a number of actions that will help to ensure that we can deliver our targeted rehabilitation performance despite the higher number of claims. These actions will also ensure that we are able to be more responsive in future as claim volumes change.

...but despite this ACC's performance remains comparable with organisations in Australia

Benchmarking has confirmed that the percentage of workers who return to work and are still at work nine months later is comparable with the average across Australian workers' compensation schemes.

Cost effectiveness
Are we fair and affordable?

Financial and investment performance continues to be strong

ACC has recorded a surplus of $2.1 billion which is above budget by $298 million. This was primarily due to stronger than expected earnings from global equities increasing returns from our investment fund. This was the 19th consecutive year that the investment team exceeded their benchmark.

...and we're on track for full funding

ACC has been working to become fully funded by 2019. The Work and Earners' Accounts achieved full funding in the prior year. The Motor Vehicle Account remains on track for full funding and solvency is 99.5% at 30 June 2014.

...enabling levies to be reduced during 2013/14

In December 2013 Cabinet announced a reduction in levies for the Work Account and Earners' Account, which came into effect on 1 April 2014. Reductions to motor vehicle levies have also been announced and will come into effect on 1 July 2015.

Reduce the incidence and severity of injury in New Zealand

Effective and targeted injury prevention activities should in time reduce entitlement claims.

Injuries are a serious and costly issue in New Zealand. The impacts of injury go beyond the individual's pain, loss of earnings and reduced quality of life, to their families, their employers, our health care system and our communities.

We help to avoid injuries by investing in injury prevention programmes and working across government and non-government organisations. Through these partnerships we encourage individuals, businesses, families and communities to take specific actions to reduce the risk of injury to themselves and to others.

Our performance this year

The number of entitlement claims received (those that generally relate to moderate or serious injuries) is linked to the performance of the economy. As the economy improves, the number of claims increases, reflecting that more people are in employment and more people have the financial means to undertake activities outside work.

2013/14 has been a period of increasing entitlement claim volumes. The targeted reduction in new entitlement claims against forecast for motor vehicle, work, home and community falls, and priority sport claims was not achieved.

Whilst economic growth has influenced this increase in claim volumes, we have an ongoing responsibility to invest in effective and targeted injury prevention activities that can in time reduce entitlement claims. This is the focus of ACC's new investment approach to injury prevention.

Leading injury prevention activities across government

The social and economic cost of injury to New Zealand is estimated to be more than $10 billion.[1] ACC is in a unique position to make a significant contribution to reducing the cost of injury by coordinating cross-agency action on preventable injury.

A cross-government injury prevention work plan was agreed by Cabinet in December 2013, involving ACC and key government partner agencies (the Ministries of Business, Innovation and Employment, Justice, Social Development, Transport, Health, Women's Affairs, and NZ Police). This will enable us to work alongside our partners to address specific areas of national concern, for example reducing the incidence and impact of sexual violence and falls in the elderly.

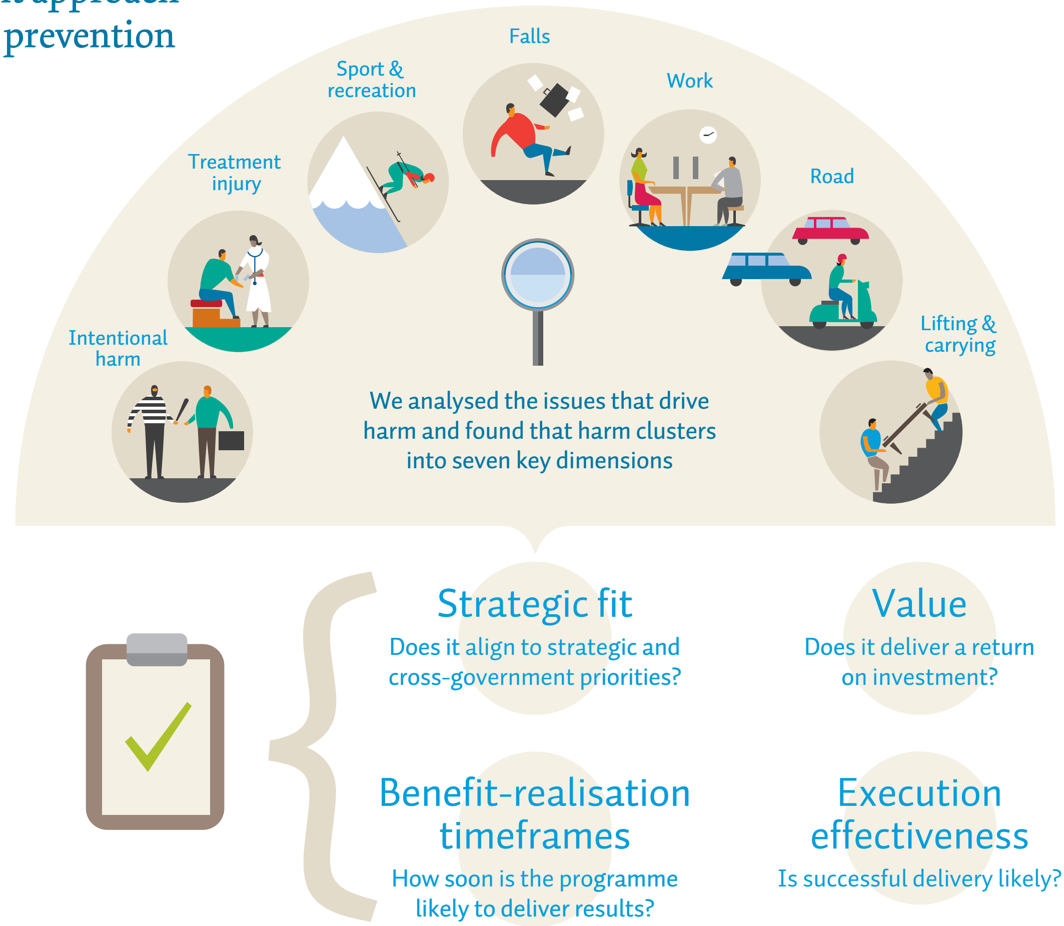
Playing our part in implementing the Government's Working Safer reforms

Since the inception of WorkSafe New Zealand in 2013, ACC and WorkSafe New Zealand have established a workplace injury prevention partnership intent on delivering measurable improvements in fatal and serious injury rates and occupational health.

In partnership with WorkSafe New Zealand and the Ministry of Business, Innovation and Employment, ACC has agreed the approach to the three-year joint action plan to include a focus on four priority industries (agriculture, construction, manufacturing and forestry), three common cross-industry issues (manual handling, falls and working in and around vehicles), occupational health and the general promotion of safe working practices.

1 *2010 figures quoted in the New Zealand Injury Prevention Strategy Outcomes Monitoring Report for 2011/12*

Investment approach for injury prevention



New investment approach for injury prevention has been implemented

This year we have taken a new approach to increase the success of our injury prevention activities.

We have analysed the issues that drive harm and found that injuries cluster into seven key dimensions – falls, work, road, sport and recreation, lifting and carrying, treatment injury, and intentional harm. These are our strategic priorities.

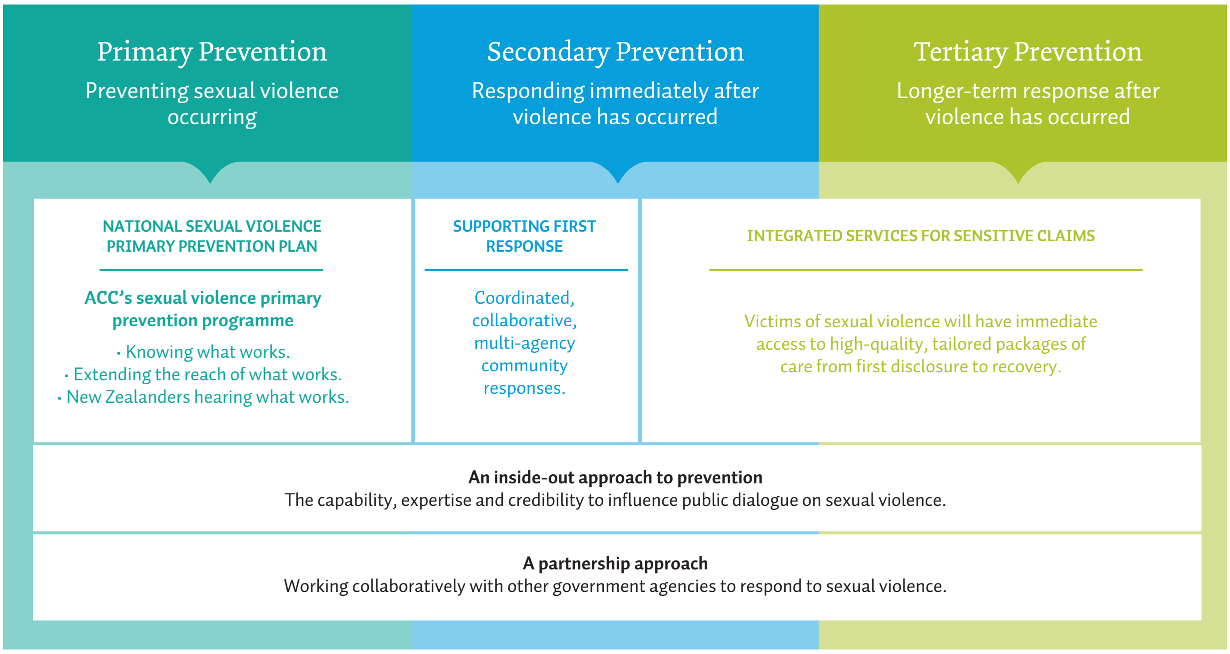
Our revised approach means that each potential new injury prevention programme is evaluated against four criteria: value, strategic fit, execution effectiveness and benefit-realisation timeframes.

All existing injury prevention programmes will be assessed against these criteria during 2014/15 and we will continue to target a reduction in entitlement claims.

Tackling new and difficult areas to make a difference

In 2013/14, ACC spent $59 million on 17,600 sensitive claims. Preventing sexual violence is a new area of focus for ACC. We have an opportunity to make a real difference to reduce the incidence of sexual violence in New Zealand and the consequences of the serious harm it causes.

Integrated strategy for action on sexual violence



A three-year primary prevention programme has been initiated, including a range of ACC-led and cross-agency initiatives. Within this, a school-based healthy relationships pilot programme is underway called 'Mates & Dates', which will teach students how to have relationships based on respect, negotiation and consent. We are also developing an evaluation framework to assess the effectiveness of prevention activities. Further information on the new integrated services for sensitive claims is provided on page 20.

Rehabilitate injured people in New Zealand more effectively

Delivering high-quality rehabilitation services to clients and businesses is critical to the Scheme's success, as financial sustainability can only be achieved through the provision of quality and sustained 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 demonstrate that we are effectively supporting our clients to return to work or independence by measuring the durable-return-to-work rate.

We aim to ensure that people with injuries covered by the Scheme get the rehabilitation they need to return to full roles in society as quickly as possible.

In addition to our rehabilitation performance, areas of focus over the past year have included:

- improving our **customers' experience**
- lifting the public's **trust and confidence** in ACC
- significantly **reducing privacy breaches**.

In 2013/14:

ACC accepted **1.8 million** new claims

These claims were looked after by **1,875** staff

More than **954,000** clients
visited their GPs

More than **35,000** clients
had surgery

More than **445,000** clients
received physiotherapy

More than **89,000** clients
received weekly compensation

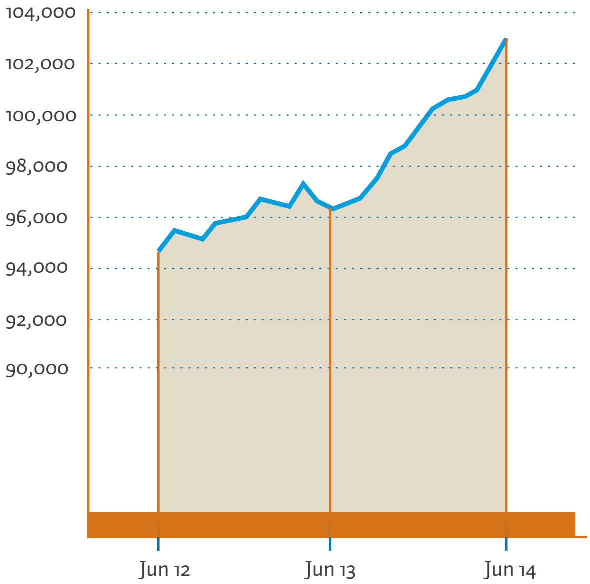
More than **91,000** clients
received rehabilitation services. Of these, more than **4,400** were serious injury clients

More than **32,000** clients
received vocational rehabilitation services

ACC approved
6,082 shoulder surgeries
11,891 knee surgeries

Our performance this year

Sustained growth in claim volumes has put pressure on our rehabilitation performance with a slight deterioration in the rate of clients that are returned to independence within 70 days (67.8% compared to 70.3% last year) and at 273 days (93.3% compared to 93.9% last year).



Growth in new entitlement claims

Entitlement claims are generally those where moderate or serious injuries have occurred and people require compensation and/or additional support in order to return to independence (eg home support and assistance to return to work).

Our analysis indicates claim volumes are closely linked to the economy. We experienced significant growth in claims volumes last year, which reflects the improving state of the economy. However, this growth makes it more challenging to deliver quality services.

We are taking a number of actions that will help to ensure we can deliver our targeted rehabilitation performance despite the higher number of claims. These actions will also ensure we are able to be more responsive in future as claim volumes change.

Listening and making changes that will improve our customers' experience

In late 2013 we undertook surveys and workshops with more than 5,500 New Zealanders on their experience with ACC. This highlighted that despite improvement in recent years, there is still more we can do. During the remainder of 2013/14 we established a programme to design a new target operating model, and associated transformation programme, with the aim of making ACC more efficient and effective and rebuilding the public's trust and confidence.

The initial phase of this programme identified opportunities to make gains through:

- improved service delivery to clients, levy payers and providers through branches, call centres and digital channels, supported by capable, empowered staff
- simplified processes, operating structures and channels enabling ACC to reinvest in customer service at the front line, supported by a new organisational design
- upgraded technology to support core service delivery and the management of personal information through process simplification and improved digital channels.

Whilst this work was underway we continued to make changes to our services in order to improve our customers' experience. Examples include:

- designing a new leadership structure, elevating the customer perspective to the executive level
- introducing greater predictive information that allows our team to assess more accurately likely return-to-independence times based on the nature of injuries

- designing a new integrated sensitive claims service
- agreeing on a spinal cord impairment action plan to deliver more consistent and age-appropriate services for those suffering spinal cord impairments
- creating a single point of accountability for the quality of clinical advice and clinical decision-making
- maintaining a focus on protecting personal information, halving the number of privacy breaches from the prior year.

Changes made to our services this year are already making a difference and we're pleased that customer satisfaction and trust and confidence measures are moving in the right direction.

Customers to be represented through a new Chief Customer Officer

During the year changes were made to the executive management team structure and accountabilities, in order to streamline decision-making and drive improvements in the organisation's customer orientation and operating performance in the coming years.

At the heart of this change is the elevation of the customer perspective to the executive level. The new role of Chief Customer Officer shows our desire to improve our customers' experience and places an overall customer focus at the core of our performance and culture. This role is the authority on customer experience in the organisation. We will build our capability to continually improve the customer experience based on gathering, measuring and listening to customer feedback. The role is also accountable for the design of all customer-facing activities and acts as the 'voice of the customer' for the organisation.

An important counterpart to the Chief Customer Officer is the new Chief Operating Officer role. This role is responsible for all service delivery through branches, contact centres and service centres and for enterprise information technology (IT). Service delivery will be focused on the customer, and will shape our IT.

Together, the Chief Customer Officer and the Chief Operating Officer are responsible for the design and delivery of the end-to-end customer experience. Each function will build its necessary expertise and focus on its core accountabilities, while creating a healthy and dynamic tension between optimal design and operational prudence.

Helping our clients gain quicker access to the services they need

We know there is more that we can do to improve communication with our clients and their understanding and overall trust and confidence in us. As an example, clients often have to tell us their stories several times, which is frustrating for them and adds unnecessary duplication for us.

We launched our new service needs assessment service in November 2013. Two new teams were established in Hamilton and Dunedin to allocate claims based on their complexity to either our short-term claims centre or a branch. Since being launched, these teams have completed more than 75,000 inbound and outbound calls and allocated more than 30,000 claims for management.

This team has enabled us to be more responsive to our clients and ensure that they get the services they need quickly. It also means clients are better informed about what they are entitled to and how their claims will be managed.

Alongside this activity we have been building better insights from the information we hold. Since June 2014 case managers have been able to use predictive information about claims to help them quickly and more effectively plan and agree realistic rehabilitation actions and return-to-work outcomes with their clients.

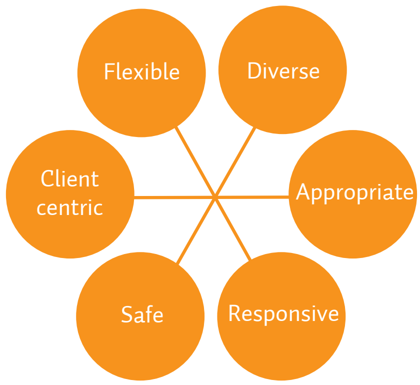
Implementing a more integrated experience for clients with sensitive claims

As part of our strategy for action on sexual violence, we have been working with survivors of sexual abuse as well as service providers, professional bodies and our own sensitive claims staff to develop a new sensitive claims service with a focus on clients getting what they need in a holistic manner.

Early in 2014 we initiated a tender process to ensure that our clients can access high-quality service providers with the capacity and capabilities to deliver to the range of client needs. The new service is expected to start in late 2014.

The overriding principle for the new service is that every client is supported according to their needs.

The principles of the new integrated sensitive claims service are to be:



Delivering more consistent and age-appropriate services for people with spinal cord impairments

Spinal cord impairments affect the lives of those who are diagnosed with them, but also many others, especially their families and whānau. They can happen at any age and, due to medical advancements, most people living with spinal cord impairments now have a near-normal life expectancy, but this brings with it progressive complexity for people and their lifelong self-management.

ACC has been part of a joint national project with the Ministry of Health to develop an action plan to deliver more consistent and age-appropriate services for those suffering spinal cord impairments. The plan was developed following significant engagement with client groups, medical experts and their professional bodies.

Strengthening clinical leadership to deliver better outcomes for clients

Clinical staff work across ACC to support our case managers to ensure that we get the best possible outcomes for clients by improving rehabilitation and providing our case managers with quality, consistent clinical advice.

During the past year we have:

- created a single point of accountability for the quality of clinical advice and clinical decision-making in ACC, to avoid any risk of fragmented or inconsistent advice
- strengthened our focus on rehabilitation to ensure that rehabilitation strategy, practice and advice deliver improved outcomes for injured people
- continued bringing together all clinical staff, ie medical advisors (doctors) and clinical advisors (comprising other health professionals), to improve clinical leadership and independence, and appointed a Chief Clinical Advisor.

- developed plans to strengthen our engagement with the health sector and providers in order to deliver better rehabilitation and treatment for clients.

Our focus on improving clinical leadership and advice will continue to take effect throughout 2014/15 and beyond.

Māori responsiveness strategy

Building a culturally responsive organisation includes a long-term commitment to improving our engagement with, and service to, Māori across all aspects of our business. A culturally responsive organisation means that:

- ACC and Māori value the unique role we each have in New Zealand
- services and products are people centred and get results
- we enable fair access to rehabilitation and services for Māori.

ACC's approach to enabling equitable outcomes for Māori has two parts.

Floating the waka – tackling known disparities, building capability and establishing key relationships

ACC has identified a number of areas where the experience for Māori is poorer or less effective than it is for the general population. One of these areas is return to employment for the seriously injured.

Earlier in 2014 we ran an initiative focusing on 15 seriously injured Māori clients. All are now engaged in some form of employment or return-to-work programme. We are in the process of selecting the next cohort of clients to participate in this initiative. Work continues to identify success factors, gaps, and opportunities to improve our practice and engagement with seriously injured Māori clients.

Charting a new course – new partners, new partnership models and embedding cultural responsiveness into the system and organisation

Māori whānau and communities are losing more people in road crashes and have poorer access to specialist treatment, home support and employment. Partnerships are the key to achieving better outcomes. Research has found that the most successful programmes for Māori are those where Māori have been involved in their design, testing and implementation.

During the year we have worked with Waikato-Tainui, Ngāi Tahu, Te Whānau o Waipareira Trust and the Federation of Māori Authorities to discuss partnership opportunities. Memoranda of understanding are expected to be signed with all of these organisations before the end of 2014.

Continued focus on protecting personal information

We deal with confidential and sensitive information for a large number of people and entities, including clients, customers, suppliers and employers. The type of information that we hold, such as health and financial information, is the most private kind. It is imperative that a 'zero tolerance of privacy breaches' is a foundation element of our culture and privacy is a paramount consideration.

Over the past year we have continued to make changes to the way we handle personal information, and we have now implemented 37 of the 44 recommendations from the August 2012 'Independent review of ACC Privacy and Security of Information'.

This year, we have:

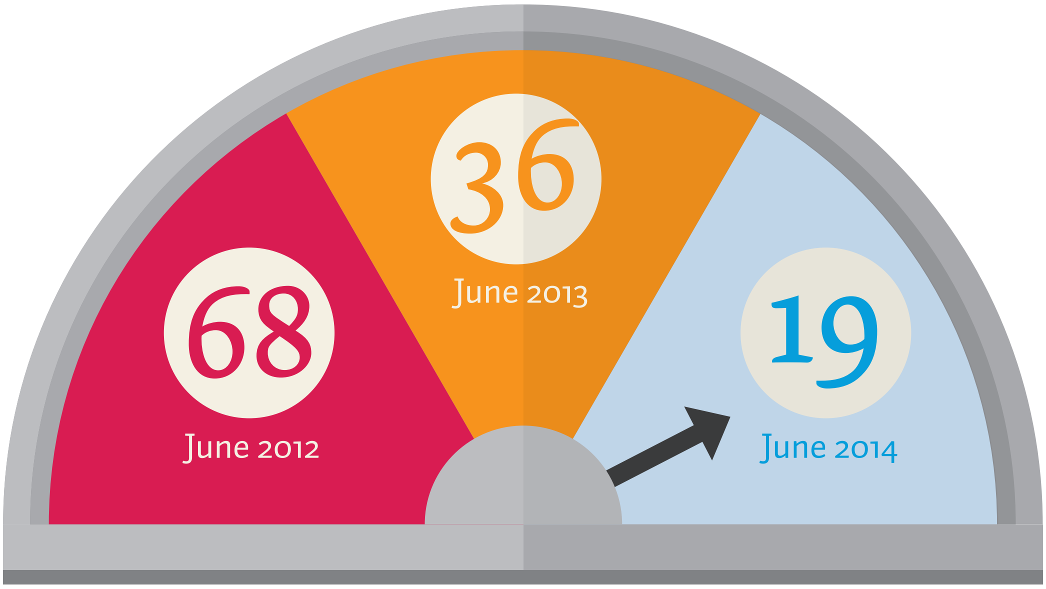
- recruited additional staff in high-risk areas to manage client information and perform additional privacy checks to reduce the risk of breaches

- developed a breach management process to ensure there is a rapid response to protect client information
- implemented a privacy strategy that sets out the accountability for privacy at all levels of the organisation
- shared our experiences of improving the management of personal information with other government agencies (both in New Zealand and overseas).

As a result of our actions and focus in this area:

- the rolling three-month average number of privacy breaches has halved since June 2013
- there has been a 64% reduction in complaints to the Office of the Privacy Commissioner that were notified to ACC.

There is still more that we can do. A number of our processes are manual and paper based. Significant investment is planned in the next three years to establish an effective technology foundation for the future that will support us to achieve continuing reductions in the number of privacy breaches.



The three-month average of monthly privacy breaches.

New Zealanders in need receive the services they are entitled to

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.

The effective financial management of the Scheme delivers certainty, stability and sustainability of services for New Zealanders.

By raising enough revenue each year to cover that year's full cost of claims, the Scheme will be financially sustainable and fair to each generation of New Zealanders.

Our performance this year

Another good year for our investment team

Our surplus for the year was $2,145 million, $298 million above budget.

This was primarily due to our investment performance, with investment income $344 million above budget. We succeeded in outperforming the benchmark for the 19th consecutive year, however, we did not outperform to the extent of our target.

A small increase to the outstanding claims liability

We expect the outstanding claims liability to grow over time as the Scheme matures. Some claims will receive payments for more than 80 years while our Scheme is 'only' 40 years old. This combined with population growth means that more claims are coming in than are going out. This year the expected growth has increased the outstanding claims liability by $1,013 million.

The actuarial assumptions set independently and 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, the liability reduces. Similarly, if we perform worse, the liability increases. The liability is affected by both internal and external factors. External factors include regulatory changes, policy changes, and movements in discount rates and inflation. In combination, these factors have reduced the outstanding claims liability by $479 million this year.

As a result, the outstanding claims liability has increased by $534 million this year against a budgeted increase of $593 million.

Operating costs below budget

Close management control of operating expenses has ensured that operating costs came in under budget.

An explanation of the outstanding claims liability

The outstanding claims liability is the amount of money we need today to cover the future costs of all known injury claims.

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. In order to calculate the outstanding claims liability we estimate the total lifetime cash costs (including associated administrative costs) for all known injury claims. The outstanding claims liability is the value, in today's money, of these total lifetime cash costs. Each year a portion of the levies collected is set aside to provide for these costs and this is invested to ensure that sufficient income is earned to meet the future costs of known claims.

How we were funded during 2013/14

The money we need to provide our services comes from levies on people's earnings, businesses' payrolls, petrol and fees from vehicle licensing, and government funding. We distribute the money collected into five ACC Accounts, each Account covering a specific group of injuries. Each Account operates independently and cannot cross-subsidise another.

The account and who funds it	What's covered		2011/12	2012/13	2013/14	2014/15
Work Account **Employers:** Based on wages paid to staff **Self-employed:** Based on income earned	WORK-RELATED INJURIES		$1.47 per $100 liable earnings	$1.15 per $100 liable earnings	$1.15 per $100 liable earnings	$0.95 per $100 liable earnings
Earners' Account **Employees:** Based on income earned **Self-employed:** Based on income earned	NON-WORK INJURIES TO PEOPLE IN EMPLOYMENT		$1.78 per $100 liable earnings	$1.48 per $100 liable earnings	$1.48 per $100 liable earnings	$1.26 per $100 liable earnings
Motor Vehicle Account **Vehicle owners:** Funded through petrol use and the motor vehicle licensing fees	INJURIES THAT INVOLVE MOVING MOTOR VEHICLES ON PUBLIC ROADS		$334.52 per motor vehicle	$334.52 per motor vehicle	$334.52 per motor vehicle	$330.68 per motor vehicle
Non-Earners' Account **The Government:** Funded by general taxation	INJURIES THAT HAPPEN TO PEOPLE NOT IN THE PAID WORKFORCE					
Treatment Injury Account **All New Zealanders:** Funded by the Earners' and Non-Earners' Accounts	INJURIES CAUSED BY MEDICAL TREATMENT					

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 expenditure on injuries. The future costs of longer-term injuries were not funded and this gave rise to a significant unfunded claims liability. ACC collects residual portions of levies in each of the Work, Earners' and Motor Vehicle Accounts to pay for the ongoing costs for injuries that happened before 1 July 1999.

The AC Act requires that the residual portions of those Accounts funded by levy collection, the Work, Motor Vehicle and Earners' Accounts, be fully funded by 2019. The Work and Earners' Accounts have achieved full funding. The Motor Vehicle Account has reached a solvency ratio of 99.5% (measured as net assets as a percentage of the outstanding claims liability).

Funding policy

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, claim volumes and resulting costs, inflation and investment performance are forecast and levies are set with the aim of meeting the targeted solvency levels for the three levied Accounts.

Cabinet has requested a review of the funding policy for all levied Accounts, led by the Ministry of Business, Innovation and Employment with support from ACC. This review is underway and is expected to conclude in 2014/15. ACC's future funding approach will be determined following this review.

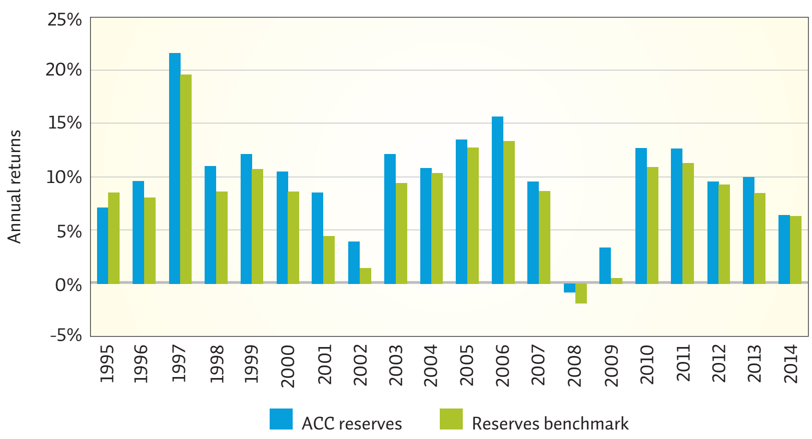
Investment performance report

2013/14 investment return	20-year rate of return per annum	Outperformed the market benchmarks by	Funds under management
6.33%	9.82%	0.10%	$26.96 billion[1]

Our Reserves Portfolio achieved an aggregate return of 6.33% over the year, beating market benchmarks by 0.10%. The return was equal to ACC's market benchmarks after adjusting for investment costs and offshore taxes.

This was the 19th consecutive year that our Reserves Portfolio have beaten their market benchmarks. However, this was the first time in that period that ACC's outperformance did not exceed the costs of managing investments.

ACC financial year returns against benchmark



The investment return was the lowest since 2009. This reflects an increased allocation to fixed interest investments (cash and bonds) combined with low returns from bond markets, as bond yields rose slightly over the year. Returns from equity markets were strong in their local currencies, but the New Zealand dollar return from our investments in offshore equities was reduced by the strength of the New Zealand dollar.

1 *These calculations use last sale price methodology. Investments in the financial statements are measured at fair value under IAS39 Financial Instruments: Recognition and Measurement.*

The biggest single contributor to the investment return for the year was the continued strength of global equity markets. We had an average of 36% of the Reserves Portfolio invested in equity markets. Developed-country equity markets continued to be strong, returning 22% in local currency terms.

Most of ACC's investment portfolios outperformed their benchmarks during the year (particularly ACC's bond portfolios and internally managed equity portfolios), but this outperformance was offset by a negative contribution from our asset allocation decisions. For much of the year, ACC held a lower-than-benchmark weighting in equity markets and a higher-than-benchmark level of exposure to unhedged foreign exchange, and both of these positions detracted value in the financial year.

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 outstanding claims liability 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 and high-achiever turnover

2013/14 has seen ACC's highest-ever staff engagement ratio recorded, which is a significant achievement.

We remain committed to building and investing in the capabilities of our people so they can continue to deliver high-quality services that will help New Zealanders to prevent or recover from injury. Providing staff with a safe workplace and supporting their wellbeing also remain key priorities.

Building the capability of our people

ACC has partnered with Auckland University of Technology (AUT) to develop undergraduate and postgraduate qualifications in case management and leadership with an ACC context. In March 2014, the first cohort for the inaugural case management qualifications took their first steps towards a Graduate Certificate in Health Science. A second cohort commenced a Postgraduate Certificate in Business Administration in May 2014.

Empowering our people and recognising great performance

We need to continue to attract, motivate and retain high-quality talent. In 2013/14 we launched a new performance framework that aligns the principles of remuneration, recognition and rewards with ACC's strategic drivers, empowers employees and recognises top performers.

Becoming an exemplar in workplace health and safety

This year we initiated an independent review of our health and safety governance. The Board has since endorsed a health and safety charter and principles, as well as a work programme that will help us to achieve our goal of becoming an exemplar in workplace health and safety in New Zealand.

Modern desktop for all staff

We have run a large programme of work to modernise and stabilise our IT environment, including servers, desktop operating systems, email and user productivity tools (Microsoft Windows and Office). The programme has delivered significant benefits, providing a modern, versatile desktop experience and improved access to applications.

Digital foundation implemented

In the past 12 months we have established a digital foundation for future technology solutions. This provides a scalable platform upon which future applications and solutions can be built to meet the needs of our customers. We have used this foundation to create a platform that allows providers to interact with us online (eg health providers can now send invoices for treatment online).

This work is fundamental to our being able to improve our customers' experience through digital interactions, and in future we will use this foundation to extend online services to our entire customer base.

Workforce profile and equal opportunities

Full-time equivalent:

3,135

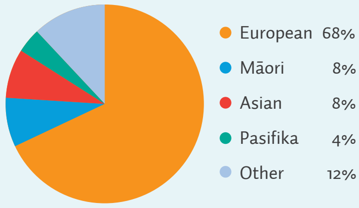
3,135 permanent and temporary staff
2,015 direct frontline staff
433 indirect frontline staff

Headcount:

3,308

3,308 permanent and temporary staff

Ethnic profile*



Ethnic diversity remains stable

Age profile

41

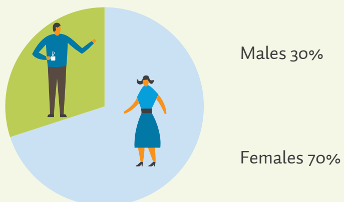
Average age 41 years

Disability profile*

1.4%

Our proportion of employees with disabilities is 1.4% (permanent staff)

Gender profile



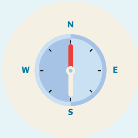
Women make up the majority of our workforce, with 70% females compared with 30% males

* 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 in the past 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**	· Graduate and postgraduate qualifications offered in leadership/management. · Targeted leadership courses offered for future leaders, and new and experienced managers. · Manager induction programme launched. · Specific leadership workshops and coaching conducted for Executive and senior managers to support a change to a more customer-centred culture.
 **Recruitment, induction and selection**	· 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, promotion and exit**	· A new performance development and remuneration framework was implemented in 2013/14. · Graduate and postgraduate qualifications offered in health science for case management. · Comprehensive range of training programmes available to staff. · A customer service programme for all staff has been developed and will be implemented in 2014/15 under the transformation programme.
 **Flexibility and work design**	· Organisation-wide flexible working programme. · Parent rooms in some locations.
 **Remuneration, recognition and conditions**	· Initiatives in place to recognise high performers. · Transparent, equitable and gender-neutral job evaluation practices.
 **Harassment and bullying prevention**	· Staff completed mandatory training on the Code of Conduct during the year. · Guidelines on online harassment and cyber bullying have been developed and communicated to all staff.
 **Safe and healthy environment**	· Our commitment to providing staff with a safe workplace and supporting their wellbeing is delivered through a range of support services, including: – a dedicated workplace wellness programme – an Employee Assistance Programme – a professional supervision support programme – ergonomic workstation assessments – health and safety/WorkSAFE policy and training for all staff.

Governance and managing our risks

ACC Board and governance framework

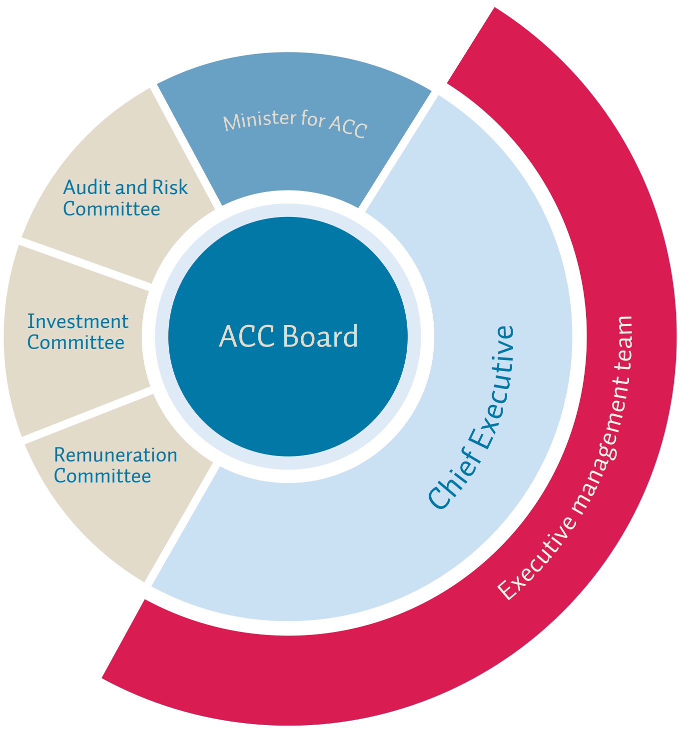
ACC is governed by a Board of up to eight members appointed by the Minister for ACC.

The Board has the authority to exercise ACC's statutory powers and perform its functions. The Board may only act for the purpose of performing ACC's statutory functions.

Board members are accountable to the Minister and also to ACC for the performance of their duties.

The Board's governance role is largely governed by the provisions of the Crown Entities Act 2004 (CE Act), the AC Act, the State Sector Act 1988 and the Public Finance Act 1989 and includes the following elements:

- maintaining appropriate relationships with the Minister, the House of Representatives and the public
- ensuring ACC's compliance with the law, ACC's accountability documents and relevant Crown expectations
- ensuring that ACC is a good employer and creates a supportive environment that promotes the highest standards of safety and wellbeing, both for its staff and for the communities it serves
- setting strategic direction and developing policy on the operation and implementation of the legislation
- maintaining the financial viability and security of ACC and its investments
- appointing the Chief Executive of ACC
- monitoring the performance of ACC and its Chief Executive.



All decisions relating to the operation of ACC must be made by, or under the authority of, the Board.

As approved by the CE Act, the Board delegates to the Chief Executive the day-to-day management and leadership of ACC. In particular, this includes matters relating to ACC's responsibilities as an employer.

Full biographies of the Board members and our executive management team can be found at www.acc.co.nz.

Board and sub-committee attendance and fees

Board members	ACC Board	Board Audit & Risk Committee	Board Investment Committee[1]	Board Remuneration Committee	Board Member Remuneration Received
Ms Paula Rebstock[2]	🟢🟢🟢🟢🟢🟢🟢🟢🟢🟢	🟢[3]	🟢🟢🟢🟢🟢🟢🟢🟢🟢🟢	🟢🟢🟢🟠	$98,000
Mr Trevor Janes[4]	🟢🟢🟢🟢🟢🟢🟢🟢🟢🟢		🟢🟢🟢🟢🟢🟢🟢🟢🟢🟢	🟢🟢🟢🟢[5]	$61,250
Prof Des Gorman	🟢🟢🟢🟢🟢🟢🟢🟢🟠🟠	🟢🟢🟠🟠		🟢🟢🟢🟠	$49,000
Ms Kristy McDonald QC	🟢🟢🟢🟢🟢🟢🟢🟢🟠🟠	🟢🟢🟢🟢		🟢🟢🟢🟠	$49,000
Mr John Meehan[6]	🟢🟢🟢🟢🟢🟢🟢🟢🟢🟢	🟢🟢🟢🟢		🟢🟢🟢🟠	$49,000
Ms Gillian Spooner	🟢🟢🟢🟢🟢🟢🟢🟢🟢🟢	🟢🟢🟢🟢	🟢🟢🟢🟢🟢🟢🟢🟢🟠🟠	🟢[7]	$49,000
Mr James Miller	🟢🟢🟢🟢🟢🟢🟢🟢🟢🟠		🟢🟢🟢🟢🟢🟢🟢🟢🟢🟢		$49,000
Prof Gregor Coster[8]	🟢🟢🟢🟢🟢		🟢[9]		$28,583
Mr Patrick Duignan[10]			🟢🟢🟢🟢🟢🟢🟢🟢🟢🟢		$30,000[11]
Mr Stephen Greenwood[10]			🟢🟢🟢🟢🟢🟢🟢🟢🟢🟠		$30,000[11]

🟢 Attended 🟠 Did not attend

Remuneration

Remuneration for Board and External Committee members is set in accordance with the rates set by the Government under the Cabinet Fees Framework (the Framework). In 2013, the Minister for ACC conducted a review of the Board member fees. The fees were increased to the current levels on 1 July 2013. These fees rely on the exemption clauses set out in the Framework.

The External Committee members' remuneration is set under the grandparenting provisions of the Framework.

The Remuneration Committee reviews the performance and remuneration of the Chief Executive and senior management.

1 *Nine scheduled meetings and two special meetings were held during 2013/14. Gillian Spooner did not attend the two special meetings due to a conflict of interest.*

2 *Chair of the Board and Chair of the Board Remuneration Committee.*

3 *Ex-officio member. Elected to attend on 22 August 2013.*

4 *Deputy Board Chair and Chair of the Board Investment Committee.*

5 *Attended one meeting as Acting Chair.*

6 *Chair of the Audit and Risk Committee.*

7 *Co-opted member for 27 May 2014.*

8 *Appointed to the Board on 1 December 2013. Formal induction concluded in February 2014.*

9 *Co-opted member for 17 June 2014.*

10 *External member.*

11 *The value of $30,000 received by External Committee members is the same amount received last year. This was incorrectly reported as $50,000 in the 2012/13 Annual Report.*

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 following table 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.

Directions issued by Ministers

On 22 April 2014 the Minister of State Services and the Minister of Finance issued directions to apply to whole-of-government approaches to ICT, Property and Procurement. These directions came into force on 19 June 2014 and apply to ACC as a Crown entity.

The dates when these directions apply are as follows:

- ICT applies from the date the direction came into force, 19 June 2014
- Property applies from 1 July 2014
- Procurement applies from 1 February 2015.

ACC will work with the functional leaders for ICT, Property and Procurement to put these directions into effect.

Managing risks

We manage risk in line with current international risk management best practice. This facilitates the achievement of our objectives, operational effectiveness and efficiency, protection of people and assets, informed decision-making, and compliance with applicable laws and regulations.

Our risk management policy supports our commitment to a comprehensive and systematic approach to identifying, managing and documenting risks, and communicating and escalating risk matters to the Executive and Board Audit and Risk Committee.

We apply a 'three lines of defence' model in which staff are primarily responsible for identifying and managing risks and ensuring that risk management is fully integrated in their normal activities. They are supported by the risk management team, with the assurance services team providing independent assurance.

The Executive and the Board Audit and Risk Committee monitor and evaluate the effectiveness of our risk management and internal control system. Assurance services and external auditors provide input to this evaluation.

The risk radar illustrates our current strategic risk profile against five impact categories: reputational, service and quality, people, financial, and regulatory. The radar and supporting strategic and key operational risk register inform our quarterly risk reports. ACC's very high and high risks and mitigations are described in Appendix 2.

Ethical responsibilities

Our Code of Conduct specifies business standards and ethical considerations, as well as the expectation that all employees will promote the principles of equal opportunities in employment.

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 relationships and deliver our services in ways that enable equitable outcomes for Māori.

Subsidiary company

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.

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 2014.

Paula Rebstock
ACC Chair

Trevor Janes
Deputy Chair

Statement of service performance for the year ended 30 June 2014

The statement of service performance includes both the outcome and output measures contained in our Statement of Intent 2013-2016. The combination of measures details what we have done (outputs) and the difference this has made (outcomes).

Performance against our outcomes

This section is intended to enable an easy comparison of our results this year with those of last year and with our targets. A number of measures for 2013/14 were new, so for some there is no prior year comparison.

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'.

Outcome 1: Reduce the incidence and severity of injury in New Zealand

Measure	Rationale	2012/13 Actual	2013/14 Target	2013/14 Actual	Performance against target
Reduce the number of new Motor Vehicle Account entitlement claims against the forecast	We are focused on reducing the incidence and severity of injury. In partnership with other government agencies we have a number of long-term programmes in place or in development. These measures provide an indication of the success of these programmes.	New measure	84 below forecast of 4,304	160 above forecast of 4,304	Not achieved – refer to note 1
Reduce the number of new Work Account entitlement claims against the forecast		New measure	205 below forecast of 27,835	924 above forecast of 27,835	Not achieved – refer to note 2
Reduce the number of new entitlement claims against forecast in home and community falls		New measure	187 below forecast of 18,717	1,660 above forecast of 18,717	Not achieved – refer to note 3
Reduce the number of new entitlement claims against forecast in priority sports areas (rugby, rugby league, netball and football)		New measure	73 below forecast of 8,531	33 above forecast of 8,531	Not achieved – refer to note 4

Note 1: Motor Vehicle Account entitlement claims were above target by 5.8%

Weekly compensation claims have increased across the Scheme. Factors contributing to the increase include the economic recovery, growth in employment, and demographic change.

In response to emerging trends, the road crash prevention programme has been refocused on young drivers, speed management, vehicle technology and partnering with employers to improve road safety. The focus is on long-term systemic change rather than addressing short-term trends. It is ACC's goal that claim rates will decline in the medium term.

Note 2: Work Account entitlement claims were above target by 4.1%

Claim numbers in the high-risk sectors where ACC has programmes underway (eg agriculture and forestry) are generally at similar levels to last year. There has been a rise in construction claims, which may reflect increased construction activity in

Canterbury and Auckland and a rise in heavy metal manufacturing and machinery and equipment manufacturing, driven by increased economic activity.

A joint ACC and WorkSafe New Zealand three-year Workplace Injury Prevention Action Plan is being developed to include our traditional high-risk sectors of agriculture, construction, forestry and manufacturing, as well as cross-industry issues such as occupational health, manual handling, falls, working in and around vehicles and the wider aspect of workplace health and safety culture.

Note 3: Home and community falls entitlement claims were above target by 10%

ACC has commenced a review of the interventions that target fall injuries and will look to increase the scope and mix of effective interventions.

Note 4: Priority sports entitlement claims were above target by 1.3%

Claim volumes in the final quarter were significantly higher than expected. Overall claim trends over the past five years remain stable despite a significant increase in the number of sport participants. ACC's priority sports programme has been revised, and new three-year contracts are being put in place with key sporting bodies (ie for rugby, league, netball and football).

Outcome 2: Rehabilitate injured people in New Zealand more effectively

Measure	Rationale	2012/13 Actual	2013/14 Target	2013/14 Actual	Performance against target
Client satisfaction Improvement in the percentage of surveyed clients satisfied with ACC's service experience from the baseline	The best measure of how well we are tracking in our efforts to improve the customer experience is by asking our clients.	68%	68%	75%	Achieved
National Serious Injury Service (NSIS) client goals attainment Increase in the percentage of NSIS client goals attained or exceeded	Research confirms that when people make rapid returns to independence or work after injury, their overall health and wellbeing is significantly improved. These measures evaluate how effectively we are supporting our clients to return to work or independence, and whether their returns are sustained.	69%	71%	75%	Achieved
Improved return to work/ independence performance Reduction in the average duration of weekly compensation days paid in the first 365 days		85 days	84.6 days	87.3 days	Not achieved – refer to note 5
Durable return to work indicator Maintain ACC's durable return-to-work rate above the Australian average return-to-work rate		78% (above Australian average of 77%)	1% above the Australian average	77% (equal to Australian average)	Not achieved – refer to note 5
Percentage of weekly compensation clients who return to work after treatment and rehabilitation Improvement in the percentage of weekly compensation clients who return to work after treatment and rehabilitation (with either the same or different employers)		New measure	84%	92.1%	Achieved

Measure	Rationale	2012/13 Actual	2013/14 Target	2013/14 Actual	Performance against target
Supporting the rehabilitation of long-term clients Maintain a focus on the rehabilitation of long-term compensation clients by monitoring the net number returned to independence	We continue to work with long-term clients so they can have as full a role in society as possible.	209 reduction	No change	364 increase	Not achieved – refer to note 6
Trust and confidence Improve the percentage of surveyed New Zealanders who have trust and confidence in ACC	The way the public views ACC is a useful indicator of how effectively we have communicated the value that ACC delivers and demonstrated this in our interactions with levy payers, clients, providers and other stakeholders.	47%	50%	54%	Achieved
Privacy breaches Reduce the number of privacy breaches caused by ACC by 50% annually. The target is a three-month rolling average of the number of breaches reported by ACC per month	We deal with confidential and sensitive information for a large number of people and entities. The type of information we hold, such as health and financial information, is the most private kind. It is imperative that a zero tolerance of privacy breaches is a foundation element of our culture and that we monitor our progress towards achieving this.	36 per month	23 per month	19 per month	Achieved
Number of reviews lodged with Dispute Resolution Services Limited (DRSL)[1] Reduce the number of reviews lodged with DRSL and increase the number of reviews that are settled without the need for formal reviews on an annual basis. The target is a 10% annual reduction from the year-end baseline	If we make the right decisions and communicate effectively with our clients during the process, we can expect most of our decisions to be accepted and understood.	New measure	<7,200	6,057	Achieved

Note 5: The average duration of weekly compensation days paid in the first 365 days has increased and the durable-return-to-work rate is no longer 1% above benchmark

The sustained growth in claim volumes exceeded expectations and put pressure on ACC's ability to maintain the previous high levels of rehabilitation performance. We are taking a number of actions that will help to deliver our targeted rehabilitation performance going forward despite the higher number of claims. These actions will also enable us to be more responsive in future as claim volumes change.

Note 6: The long-term claims pool increased by 364 claims this year

The target was for no change in the number of long-term claims. After several years in which the long-term pool had decreased in size, the number of these clients gradually increased during 2013/14.

This was mainly due to an increasing number of new long-term claims following growth in new weekly compensation claims from over a year ago, and a small reduction in the number of clients returned to independence before 365 weekly compensation days have been paid. The number of new long-term weekly claims this year was 17% higher than in the previous financial year.

Since the start of 2014/15 changes have been made to allocate dedicated resources to manage all claims that are between one and 2.5 years' duration. This will enable long-term clients to be supported to achieve the best possible outcomes for their individual needs.

1 *In November 2013, DRSL changed its name to FairWay Resolution Limited.*

Outcome 3: New Zealanders in need receive the services they are entitled to

Measure	Rationale	2012/13 Actual	2013/14 Target	2013/14 Actual	Performance against target
Ease of doing business with ACC Improve the percentage of surveyed levy payers who find it easy to do business with ACC	The best measure of how well we are tracking in our efforts to improve the customer experience is by asking levy payers.	New measure	50%	44%	Not achieved – refer to note 7
Achieve returns from insurance operations to reach full funding Maintain the current levels of return from insurance operations. This measure reports income less expenditure, including the expected change in the outstanding claims liability	This measures our internal operational performance, excluding gains or losses driven by external economic factors.	$2,729 million	$1,847 million	$1,218 million[1]	Not achieved – refer to note 8
Achieve above-benchmark returns from investments A measure of ACC's investment performance by comparing with the industry standard. This is measured as a percentage above the blended market average benchmark[2]	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.	1.49% above benchmark	0.5% above benchmark	0.1% above benchmark	Not achieved – refer to note 9

Note 7: The percentage of business customers who found it easy to do business with ACC was below target by 6%

Despite a focus on the customer experience, only 44% (against a target of 50%) of all business customers surveyed found it easy to do business with ACC. We are continuing work to identify and implement business initiatives to improve the levy invoicing process. New service delivery targets will be set, workplace audit improvements will be implemented, and emphasis will be placed on resolving customer queries at first contact.

Note 8: Returns from insurance operations is the measure of ACC's financial performance excluding the effects of economic factors. ACC achieved a $1,217 million return from insurance operations, $630 million lower than budgeted

The main component driving this lower-than-expected performance was the impact of the claims experience included in the 30 June 2013 valuation of the outstanding claims liability. A negative impact of $593 million was expected, but a $1,117 million negative impact was actually recorded. Additionally, total claims costs for the year to date were higher than expected (2.7%) driven largely by the continuing growth in new claims.

Note 9: Investment returns were above benchmark but slightly behind target

The investment return for the year was 6.33%, 0.10% higher than benchmark but below the targeted outperformance of 0.50%.

1 *This figure excludes investment income above budget and movements in the outstanding claims liability due to economic assumptions and other factors.*

2 *These calculations use last sale price methodology. Investments in the financial statements are measured at fair value under IAS39 Financial Instruments: Recognition and Measurement.*

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 – 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 that 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.

The breakdown of our revenue earned and costs incurred compared with expected revenue and costs reported in the Statement of Intent 2013-2016 was as follows:

	Administration		Claims paid		Revenue	
$million	**Actual**	**Budget**	**Actual**	**Budget**	**Actual**	**Budget**
Output class 1 – injury prevention	34	40				
Output class 2 – levy setting and collection	39	39			4,731	4,615
Output class 3 – investment management	56	64			1,618	1,274
Output class 4 – claims management	376	360	2,959	2,881		
Total	**505**	**503**	**2,959**	**2,881**	**6,349**	**5,889**
Other operating costs	47	54				
Total ACC	**552**	**557**	**2,959**	**2,881**	**6,349**	**5,889**

Output 1: Injury prevention

ACC is one of a number of government agencies with a responsibility to reduce the incidence and severity of injury in New Zealand, and we lead the development and delivery of a cross-government injury prevention work plan.

The portfolio of injury prevention investments needs to target a cost-effective reduction in levy rates or the Non-Earners' appropriation. This requirement means that we focus our effort on injuries that affect the Scheme, such as high-cost and high-volume claims that affect claim costs, the outstanding claims liability and levies.

We work with other government agencies, non-government organisations and community groups so that the activities and funding are more effective. This coordination role is as important as providing funding for injury prevention interventions.

Activity information

Measure	Definition	2012/13 Actual	2013/14 Target	2013/14 Actual	Performance against target
Engagement in ACC road injury prevention programmes	Motorcycles: Motorcycle National Training Programme (number of riders trained)	New measure	1,000	1,391	Achieved
	Commercial fleets: Fleet Safety Programme (number of companies signed up)	New measure	2,000	2,979	Achieved

Cost measures

Measure	2012/13 Actual	2013/14 Forecast	2013/14 Actual
Total injury prevention expenditure against budget	New measure	$40 million	$34 million

During the year ACC implemented a new approach to investment in injury prevention, with all programmes being assessed against four criteria (value, strategic fit, execution effectiveness and benefit-realisation). Shifting to this new approach has caused delays and changes in delivery, resulting in lower-than-expected expenditure over the year.

Quality measures

Measure	2012/13 Actual	2013/14 Target	2013/14 Actual	Performance against target
Work Account – reduction in injuries amongst employer cohorts who have participated in claim reduction programmes. Comparison with peer groups of employers.	3.7%	5% or more claim reduction from the peer group average	0.6%	Not achieved – see Note 1
Lead the development and delivery of the New Zealand Injury Prevention Action Plan	New measure	A detailed final action plan will be submitted to Cabinet in 2013/14 for approval, including a description of any additional structures needed to support it, and implementation will commence.	This was completed in December 2013.	Achieved

Note 1:

During 2013/14 ACC achieved a 0.6% per annum greater claim reduction amongst employers who had participated in injury prevention programmes compared with employer peer groups not engaged in these programmes. This was against a target of 5%.

The measure was not achieved, despite more employers participating in the Experience Rating claims-reduction programme than we expected. Further investigation is needed to identify the drivers of claims performance in the Work Account.

Output 2: Levy setting and collection

The Scheme is managed through five Accounts, with each providing cover for a specific grouping of injuries.

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 recommend levies that are sufficient to cover the cost of claims incurred in that year. The recommendations are consulted on with levy payers and provided to Cabinet for consideration.

Activity information

The following table shows the number of funders, the levy and appropriation revenue, and the solvency levels.

Progress towards sustainability is best shown by Scheme solvency, which is measured as the ratio of net assets to the outstanding claims liability in each of ACC's Accounts and provides an indication of funding adequacy. Year-on-year improvements in Scheme solvency are the measure of ACC's progress towards the full funding target for each levied Account.

		2012/13 Actual	2013/14 Forecast	2013/14 Actual
Levy-funded Accounts				
Work Account	Number of employed and self-employed[1]	2,242,000	2,279,000	2,328,000
	Levy revenue ($million)	966	957	1,029
	Account solvency	126.7%	128.5%	138.1%
Earners' Account	Number of earners[2]	2,257,000	2,297,000	2,346,000
	Levy revenue ($million)	1,333	1,395	1,406
	Account solvency	126.1%	125.9%	131.9%
Motor Vehicle Account	Number of vehicles[2]	3,127,000	3,162,000	3,202,000
	Levy revenue ($million)	1,052	1,055	1,065
	Account solvency	87.3%	94.0%	99.5%
Government-funded Account				
Non-Earners' Account	Number of non-earners[2]	2,188,000	2,185,000	2,218,000
	Government appropriation ($million)	969	897	907
	Account solvency[3]	47.1%	49.0%	48.7%
Mixed-Funded Account				
Treatment Injury Account	Number of non-earners[2]	2,188,000	2,185,000	2,218,000
	Government appropriation ($million)	233	164	155
	Levy revenue ($million)	163	147	169
	Account solvency	67.0%	69.4%	73.3%

Cost measures

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

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

Measure	Definition	2012/13 Actual	2013/14 Target	2013/14 Actual	Performance against target
Work Account	Total cost of collection (ACC administration costs)	$17.1 million	$18.1 million	$18.0 million	Achieved
	Levy collection costs as a proportion of total levy revenue in the Work Account	1.8%	1.9%	1.8%	Achieved

Quality measures

The quality of levy collection is measured by how levy payers perceive the quality of the services they receive as well as 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.

1 *Sourced from Statistics New Zealand Household Labour Force Survey.*

2 *These figures are based on ACC's estimates.*

3 *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, which were funded on a pay-as-you-go basis, reach maturity.*

Measure	Definition	2012/13 Actual	2013/14 Target	2013/14 Actual	Performance against target
Levy payer satisfaction	The percentage of business customers who have experienced ACC's service and are satisfied	New measure	68%	59%	Not achieved – see note 2
Voluntary compliance rate	The percentage of employers and self-employed who either make levy payments in full or make alternative arrangements for payment within the invoice deadlines	81.8%	83%	80.7%	Not achieved – see note 3
Levy debt write-off	Levy debt write off as a percentage of the total expected revenue in the Work Account	1.69%	1.3%	1.47%	Not achieved – see note 4

Note 2: Levy payer satisfaction was below target by 9%

The 2013/14 year was the first year of the new National Business Survey. Achieving the levy payer satisfaction target of 68% proved to be challenging. Improving satisfaction for business customers continues to be a key focus for ACC.

A number of initiatives during 2013/14 were focused on improving the levy payer experience, including the launch of ACC Fleet Saver (addressing the high incidence and cost of heavy truck accidents on our roads), continuing to engage with a group of employers with Experience Rating loadings of 15% or more to take part in a voluntary claim reduction programme (44% achieved against a target of 40%), and proactive industry audits of customer accounts to ensure that invoices were accurate (61% of these audits resulted in a change in classification unit).

Note 3: The voluntary compliance rate was below target by 2.3%

Last year, the voluntary compliance target was raised to 83% (up from 70% the previous year). A voluntary compliance rate of 80.7% was achieved by the end of June 2014 and this was comparable with the prior year. This will continue to be an area of focus for ACC.

Note 4: The levy debt write-off as a percentage of total expected revenue was better than the prior year's but slightly above target

Performance improved against last year's result of 1.69%; however, we made insufficient allowance for liquidations, receiverships and bankruptcies.

Output 3: Investment management

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 for decades into the future, a portion of the levies collected each year is set aside to provide for future costs.

Activity information

$million	2012/13 Actual	2013/14 Forecast	2013/14 Actual
Average net funds under management	22,527	27,159	25,350
Investment income	2,090	1,274	1,618

Refer to the investment report in Appendix 1 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	2012/13 Actual	2013/14 Target	2013/14 Actual	Performance against target
Investment management costs	Total investment management costs (including direct and indirect costs)	$60 million	$64 million	$56 million	Achieved
Proportional investment management costs	Investment management costs as a proportion of total funds under management[1]	0.17%	0.15%	0.14%	Achieved

Quality measures

The quality of our investment management can be gauged by comparing our returns with those that 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	2012/13 Actual	2013/14 Forecast	2013/14 Actual	Performance against target
Investment returns against benchmark	Percentage above blended market average benchmark	1.49%	0.5%	0.10%	Not achieved – see note 5

Note 5: Investment returns were above benchmark but slightly below target

Investment returns were above benchmark but slightly below target. Please refer to the Investment Performance section for further information on market conditions during the financial year.

Other quality indicators

In addition to seeking good returns on investment, we seek to ensure that these returns are achieved in an ethically robust manner. We operate an ethical investing 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 provides a general framework for ethical investment, and cooperates with other Crown financial institutions such as the New Zealand Superannuation Fund, the Government Superannuation Fund Authority and the Earthquake Commission on investment issues.

Output 4: 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 only require primary health services (such as a one-off visit to a general practitioner), to claims from individuals who suffer serious injuries requiring lifelong services and support.

Activity information

The following table shows the recent trends in the number and type of claims we have received. The Scheme is based on legislation and each claim is evaluated to determine whether it meets the requirements of the AC Act. We do not limit our

1 *This compares well when benchmarked with other Crown financial institutes (CFIs). The Crown Ownership Monitoring Unit 2013 Annual Portfolio Report identified that ACC continues to be cost efficient. The average investment management costs as a percentage of funds under management in 2012/13 were 0.54% for all CFIs against ACC's 0.27%, which includes costs associated with trading.*

services as demand is determined by the number of covered injuries that occur and the type and amount of services those who have covered injuries are eligible to receive.

Measure	Definition	2010/11	2011/12	2012/13	2013/14
Registered claims	Total number of registered claims in the period	1,670,234	1,681,009	1,714,236	1,794,704
Medical fees only claims	Total number of medical fees only claims in the period	1,475,061	1,486,887	1,516,124	1,562,308
Other entitlement claims	Total number of entitlement claims (all entitlement claims excluding weekly compensation) that receive a payment in the period	99,976	94,323	93,393	96,904
Weekly compensation claims	Total number of weekly compensation claims that receive a payment in the period	85,903	82,573	88,463	89,175
Long-term weekly compensation claims	Number of long-term weekly compensation claims as at 30 June	11,615	10,606	10,399	10,763
New serious injury claims	Total number of new serious injury claims in the period	208	200	198	181
Fatal claims	Total number of fatal claims in the period	1,446	1,161	1,165	1,032

We aim to enable clients to receive the appropriate entitlements under the Scheme while keeping total expenditure financially sustainable. We monitor expenditure against budget for the key cost drivers of the Scheme. This is shown below.

Expenditure against key cost drivers $million	2012/13 Actual	2013/14 Forecast	2013/14 Actual
Non-fatal weekly compensation	758	816	838
Social rehabilitation	419	436	455
Medical treatment	503	539	554
Hospital treatment (elective surgery)	255	275	282

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 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	2012/13 Actual	2013/14 Target	2013/14 Actual	Performance against target
Claims handling costs ($million)	331	360	376	Not achieved – see note 6
Claims handling costs as a percentage of total claims paid	12.5%	12.5%	12.7%	Not achieved – see note 6

Note 6: Claims handling costs were above target and were a higher percentage of total claims than target

Claims handling costs increased as extra frontline staff were recruited to help manage the increase in claim volumes. In addition ACC established a client information team to reduce the risk of privacy breaches. This resulted in an increase in handling costs as a percentage of total claims paid.

Assessing the cost effectiveness of our claims management operations

The costs associated with this output class have the largest bearing on overall Scheme financial sustainability. To achieve cost stability in this area we must deliver quality services to clients. This requires the careful management of controllable costs, ensuring that all expenditure is necessary and cost effective.

Key cost drivers are influenced by underlying claim numbers, the rate at which those claims access entitlements, the time taken to rehabilitate clients and the medical costs associated with rehabilitation. Health care inflation is also a key driver of costs in this area. In recent times, effort placed on improving rehabilitation and ongoing work with key health care partners to explore options to manage inflation have led to a stable cost base. However, rising claim numbers and prices are expected to affect claim costs.

These measures are intended to enable our performance to be evaluated by the types of service provided, eg rehabilitation or elective surgery, in the areas that have the greatest impacts on Scheme costs. They align with the measures reported against the customer experience strategic intention, but provide greater detail with which to assess our performance during the year.

These measures were developed after ACC's 2013-2016 Statement of Intent was published, so there was no forecast for the 2013/14 financial year.

	Measure	2012/13 Actual	2013/14 Actual
Social rehabilitation for serious injuries	Growth in average care package relative to outstanding claims liability valuation assumptions	0.5% while OCL assumed 2.0% superimposed inflation	3.7% while OCL assumed 2.1% superimposed inflation
	Proportion of clients with care hours significantly above or below benchmarks[1]	47%	47%
Rehabilitation	Return to work within six months (182 days)	89.8%	88.8%
	Return to work within nine months (273 days)	93.9%	93.3%
	Number of clients receiving weekly compensation for more than one year	10,399	10,763
	Abatement rate for long-term clients[2]	13%	13%
Elective surgery outcomes	Proportion of surgery requests accepted	79.8%	83.1%
	Average time taken by ACC to make surgery decisions – accepted requests	13.1 days	12.7 days
	Average time taken by ACC to make surgery decisions – declined requests	36.2 days	36.2 days
	Change in average cost per client compared with outstanding claims liability	-0.1% while OCL assumed 5% superimposed inflation	0.5% while OCL assumed 5% superimposed inflation
	Proportion of clients who go ahead with surgery who are successfully rehabilitated 12 months after being approved for surgery. Note: successfully rehabilitated is defined as no longer receiving ACC support	84%	87%
	Proportion of clients who are successfully rehabilitated 12 months after requests for surgery have been declined	95%	96%
Efficiency	Average cost per claim. Administration costs less investment management and injury prevention costs/active entitlement claims	$2,284	$2,483

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 (nine-month) target is an

1 *Compared with the outstanding claims liability valuation assumptions.*

2 *Weekly compensation payments are reduced as clients return to part-time work.*

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	2012/13 Actual	2013/14 Target	2013/14 Actual	Performance against target
70-day rehabilitation rate	The percentage of clients receiving weekly compensation entitlements who have been rehabilitated within 70 days	70.3%	70.5%	67.8%	Not achieved – see note 7
273-day rehabilitation rate	The percentage of clients receiving weekly compensation entitlements who have been rehabilitated within 273 days	93.9%	93.9%	93.3%	Not achieved – see note 7
Percentage of reviews in favour of ACC	The percentage of reviews lodged with Dispute Resolution Services Limited[1] with decision withdrawn, settled or in favour of ACC	81.3%	81%	84.5%	Achieved
Number of complaints lodged	Reduce the number of problems and concerns raised with ACC that can lead to complaints lodged with the Office of the Complaints Investigator	1,645	1,530	1,369	Achieved
Cover decision timeliness	Maintain the average number of days to make a cover decision for all claims within legislative timeframes	1.3 days	1.3 days[2]	1.2 days	Achieved

Note 7: Rehabilitation rates are below target

Sustained growth in claim volumes exceeded expectations and put pressure on ACC's ability to maintain previous high levels of rehabilitation performance. We are taking a number of actions that will help us to deliver our targeted rehabilitation performance in the future despite the higher number of claims. These actions will also enable us to be more responsive as claim volumes change.

1 *In November 2013, DRSL changed its name to FairWay Resolution Limited.*

2 *We have changed the way that we measure cover decision timeliness and restated both the 2012/13 performance and the target using the new method.*

Financial statements for the year ended 30 June 2014

Consolidated statement of comprehensive income

For the year ended 30 June 2014

$000	Notes	Actual 2014	Actual 2013	Budget 2014
Net levy revenue		4,730,514	4,714,835	4,614,605
Other income	6	897	915	869
Total net levy and other income	4 & 7	**4,731,411**	**4,715,750**	**4,615,474**
Investment income	7	1,618,467	2,090,440	1,274,182
Less investment costs		55,917	60,740	63,885
Net investment income	5	**1,562,550**	**2,029,700**	**1,210,297**
Claims paid		2,959,026	2,639,167	2,880,961
Increase (decrease) in outstanding claims liability	25	534,111	(1,234,144)	593,234
Movement in unexpired risk liability	24	159,472	(26,515)	11,391
Total claims costs		**3,652,609**	**1,378,508**	**3,485,586**
Injury prevention costs		34,010	22,391	40,000
Operating costs		462,496	415,356	452,950
Net surplus		**2,144,846**	**4,929,195**	**1,847,235**
Other comprehensive income				
Revaluation (loss) on land and buildings		–	(21)	–
Other comprehensive income		**–**	**(21)**	**–**
Total comprehensive income for the year		**2,144,846**	**4,929,174**	**1,847,235**

The accompanying notes form part of these financial statements.

Consolidated statement of changes in reserves (equity)

For the year ended 30 June 2014

$000	Notes	Actual Total	Actual Motor Vehicle Account	Actual Non-Earners' Account	Actual Earners' Account	Actual Work Account	Actual Treatment Injury Account	Budget Total
Total Account reserves								
Balance at the beginning of the year (deficit)		**(2,253,463)**	**(984,201)**	**(2,938,302)**	**1,344,247**	**1,437,656**	**(1,112,863)**	**(3,281,262)**
Net surplus for the year		2,144,846	945,526	50,709	356,699	624,652	167,260	1,847,235
Other comprehensive income		–	–	–	–	–	–	–
Total comprehensive income for the year		**2,144,846**	**945,526**	**50,709**	**356,699**	**624,652**	**167,260**	**1,847,235**
Balance at the end of the year (deficit)		**(108,617)**	**(38,675)**	**(2,887,593)**	**1,700,946**	**2,062,308**	**(945,603)**	**(1,434,027)**
Revaluation reserves								
Balance at the beginning of the year		**301**	**–**	**–**	**–**	**–**	**–**	**–**
Net surplus for the year		–	–	–	–	–	–	–
Other comprehensive income	27	–	–	–	–	–	–	–
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**
Balance at the end of the year		**301**	**–**	**–**	**–**	**–**	**–**	**–**
Total reserves								
Balance at the beginning of the year (deficit)		**(2,253,162)**	**(984,201)**	**(2,938,302)**	**1,344,247**	**1,437,656**	**(1,112,863)**	**(3,281,262)**
Net surplus for the year		2,144,846	945,526	50,709	356,699	624,652	167,260	1,847,235
Other comprehensive income	27	–	–	–	–	–	–	–
Total comprehensive income for the year		**2,144,846**	**945,526**	**50,709**	**356,699**	**624,652**	**167,260**	**1,847,235**
Balance at the end of the year (deficit)		**(108,316)**	**(38,675)**	**(2,887,593)**	**1,700,946**	**2,062,308**	**(945,603)**	**(1,434,027)**

The accompanying notes form part of these financial statements.

Consolidated statement of changes in reserves (equity)

For the year ended 30 June 2013

$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)		**(7,185,421)**	**(2,618,256)**	**(3,369,021)**	**339,118**	**28,343**	**(1,565,605)**
Net surplus for the year		4,929,195	1,633,779	430,550	1,004,726	1,407,426	452,714
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**
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)**
Revaluation reserves							
Balance at the beginning of the year		**3,085**	**–**	**–**	**–**	**–**	**–**
Net surplus for the year		–	–	–	–	–	–
Other comprehensive income	27	(21)	–	–	–	–	–
Total comprehensive income for the year		**(21)**	**–**	**–**	**–**	**–**	**–**
Transfer to Account reserves		(2,763)	–	–	–	–	–
Balance at the end of the year		**301**	**–**	**–**	**–**	**–**	**–**
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)**
Net surplus for the year		4,929,195	1,633,779	430,550	1,004,726	1,407,426	452,714
Other comprehensive income	27	(21)	–	–	–	–	–
Total comprehensive income for the year		**4,929,174**	**1,633,779**	**430,550**	**1,004,726**	**1,407,426**	**452,714**
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)**

The accompanying notes form part of these financial statements.

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

Motor Vehicle Account

For the year ended 30 June 2014

$000	Notes	Actual 2014	Actual 2013	Budget 2014
Levy revenue from motor licensing		768,945	751,459	748,031
Levy revenue from petrol levy		293,093	298,101	304,722
Motorcycle safety levy		2,513	2,408	2,238
Other income		30	32	26
Total net levy and other income		**1,064,581**	**1,052,000**	**1,055,017**
Investment income		439,934	588,805	374,820
Less investment costs		16,006	17,298	18,041
Net investment income		**423,928**	**571,507**	**356,779**
Claims paid		424,658	365,990	416,294
Increase (decrease) in outstanding claims liability	25	60,140	(422,790)	106,524
Total claims costs		**484,798**	**(56,800)**	**522,818**
Injury prevention costs		9,692	5,001	18,269
Operating costs		48,493	41,527	50,946
Net surplus		**945,526**	**1,633,779**	**819,763**
Other comprehensive income		–	–	–
Total comprehensive income for the year		**945,526**	**1,633,779**	**819,763**
Account reserve – opening balance (deficit)		**(984,201)**	**(2,618,256)**	**(1,315,870)**
Net surplus and total comprehensive income		**945,526**	**1,633,779**	**819,763**
Transfer from revaluation reserve		–	**276**	–
Account reserve – closing balance (deficit)		**(38,675)**	**(984,201)**	**(496,107)**

The accompanying notes form part of these financial statements.

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

Non-Earners' Account

For the year ended 30 June 2014

$000	Notes	Actual 2014	Actual 2013	Budget 2014
Levy revenue appropriated by Parliament		1,062,374	1,201,255	1,060,468
Less funding of Treatment Injury Account		(155,109)	(232,567)	(163,870)
Other income		8	10	2
Total net levy and other income		**907,273**	**968,698**	**896,600**
Investment income		178,406	259,423	141,663
Less investment costs		6,384	7,059	7,328
Net investment income		**172,022**	**252,364**	**134,335**
Claims paid		850,104	776,687	813,722
Increase (decrease) in outstanding claims liability	25	84,194	(64,202)	44,740
Total claims costs		**934,298**	**712,485**	**858,462**
Injury prevention costs		5,546	3,304	4,783
Operating costs		88,742	74,723	82,608
Net surplus		**50,709**	**430,550**	**85,082**
Other comprehensive income		–	–	–
Total comprehensive income for the year		**50,709**	**430,550**	**85,082**
Account reserve – opening balance (deficit)		**(2,938,302)**	**(3,369,021)**	**(2,990,137)**
Net surplus and total comprehensive income		**50,709**	**430,550**	**85,082**
Transfer from revaluation reserve		–	**169**	–
Account reserve – closing balance (deficit)		**(2,887,593)**	**(2,938,302)**	**(2,905,055)**

The accompanying notes form part of these financial statements.

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

Earners' Account

For the year ended 30 June 2014

$000	Notes	Actual 2014	Actual 2013	Budget 2014
Levy revenue		1,574,776	1,495,612	1,542,532
Less funding of Treatment Injury Account		(169,048)	(162,594)	(147,055)
Other income		446	460	434
Total net levy and other income		**1,406,174**	**1,333,478**	**1,395,911**
Investment income		435,788	534,034	323,047
Less investment costs		14,357	15,797	16,667
Net investment income		**421,431**	**518,237**	**306,380**
Claims paid		952,230	861,267	939,478
Increase (decrease) in outstanding claims liability	25	185,200	(200,925)	251,499
Movement in unexpired risk liability	24	159,472	30,542	11,391
Total claims costs		**1,296,902**	**690,884**	**1,202,368**
Injury prevention costs		6,683	4,349	6,167
Operating costs		167,321	151,756	165,813
Net surplus		**356,699**	**1,004,726**	**327,943**
Other comprehensive income		–	–	–
Total comprehensive income for the year		**356,699**	**1,004,726**	**327,943**
Account reserve – opening balance		**1,344,247**	**339,118**	**1,137,123**
Net surplus and total comprehensive income		**356,699**	**1,004,726**	**327,943**
Transfer from revaluation reserve		–	**403**	–
Account reserve – closing balance		**1,700,946**	**1,344,247**	**1,465,066**

The accompanying notes form part of these financial statements.

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

Work Account

For the year ended 30 June 2014

$000	Notes	Actual 2014	Actual 2013	Budget 2014
Levy revenue		1,028,813	966,000	956,614
Other income		411	410	407
Total net levy and other income		**1,029,224**	**966,410**	**957,021**
Investment income		405,990	505,889	306,464
Less investment costs		13,842	14,932	16,372
Net investment income		**392,148**	**490,957**	**290,092**
Claims paid		607,230	539,335	587,983
Increase (decrease) in outstanding claims liability	25	38,900	(572,487)	(8,597)
Movement in unexpired risk liability	24	–	(57,057)	–
Total claims costs		**646,130**	**(90,209)**	**579,386**
Injury prevention costs		11,982	9,737	10,781
Operating costs		138,608	130,413	140,459
Net surplus		**624,652**	**1,407,426**	**516,487**
Other comprehensive income		–	–	–
Total comprehensive income for the year		**624,652**	**1,407,426**	**516,487**
Account reserve – opening balance		**1,437,656**	**28,343**	**1,121,565**
Net surplus and total comprehensive income		**624,652**	**1,407,426**	**516,487**
Transfer from revaluation reserve		–	**1,887**	–
Account reserve – closing balance		**2,062,308**	**1,437,656**	**1,638,052**
Reserve for future gradual process claims	26	**516,200**	**393,300**	**514,800**
Reserve for all other claims		**1,546,108**	**1,044,356**	**1,123,252**
Account reserve		**2,062,308**	**1,437,656**	**1,638,052**

The accompanying notes form part of these financial statements.

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

Treatment Injury Account

For the year ended 30 June 2014

$000	Notes	Actual 2014	Actual 2013	Budget 2014
Levy revenue funded by Non-Earners' Account		155,109	232,567	163,870
Levy revenue funded by Earners' Account		169,048	162,594	147,055
Other income		2	3	–
Total net levy and other income		**324,159**	**395,164**	**310,925**
Investment income		158,349	202,289	128,188
Less investment costs		5,328	5,654	5,477
Net investment income		**153,021**	**196,635**	**122,711**
Claims paid		124,804	95,888	123,484
Increase in outstanding claims liability	25	165,677	26,260	199,068
Total claims costs		**290,481**	**122,148**	**322,552**
Injury prevention costs		107	–.	–.
Operating costs		19,332	16,937	13,124
Net surplus		**167,260**	**452,714**	**97,960**
Other comprehensive income		**–**	**–**	**–**
Total comprehensive income for the year		**167,260**	**452,714**	**97,960**
Account reserve – opening balance (deficit)		**(1,112,863)**	**(1,565,605)**	**(1,233,943)**
Net surplus and total comprehensive income		**167,260**	**452,714**	**97,960**
Transfer from revaluation reserve		**–**	**28**	**–**
Account reserve – closing balance (deficit)		**(945,603)**	**(1,112,863)**	**(1,135,983)**

The accompanying notes form part of these financial statements.

Consolidated statement of financial position

As at 30 June 2014

$000	Notes	Actual 2014	Actual 2013	Budget 2014
Account reserves				
Motor Vehicle Account		(38,675)	(984,201)	(496,107)
Non-Earners' Account		(2,887,593)	(2,938,302)	(2,905,055)
Earners' Account		1,700,946	1,344,247	1,465,066
Work Account		2,062,308	1,437,656	1,638,052
Treatment Injury Account		(945,603)	(1,112,863)	(1,135,983)
Total Account reserves		**(108,617)**	**(2,253,463)**	**(1,434,027)**
Revaluation reserves	27	301	301	–
Total reserves (deficit)		**(108,316)**	**(2,253,162)**	**(1,434,027)**
Represented by:				
Assets				
Cash and cash equivalents	10	466,189	406,784	392,886
Receivables	11	525,322	364,531	978,954
Accrued levy revenue	12	2,466,026	2,606,816	2,697,324
Investments	13	27,367,911	24,616,354	28,099,690
Derivative financial instruments	14	141,466	254,494	–
Investment properties	16	234,870	160,390	27,200
Investment intangible asset	17	53,286	55,600	–
Property, plant and equipment	19	33,169	38,974	40,108
Intangible assets	20	111,041	114,464	125,748
Total assets		**31,399,280**	**28,618,407**	**32,361,910**
Less liabilities				
Derivative financial instruments	14	202,011	184,791	–
Payables and accrued liabilities	21	1,287,452	1,171,511	2,373,380
Provisions	22	70,596	69,229	–
Unearned levy liability	23	2,049,626	2,241,710	2,262,396
Unexpired risk liability	24	201,549	42,077	77,476
Outstanding claims liability	25	27,696,362	27,162,251	29,082,685
Total liabilities		**31,507,596**	**30,871,569**	**33,795,937**
Net liabilities		**(108,316)**	**(2,253,162)**	**(1,434,027)**

For and on behalf of the Board, which authorised the issue of these financial statements on 23 September 2014:

Paula Rebstock
ACC Chair
Date: 23 September 2014

Trevor Janes
Deputy Chair
Date: 23 September 2014

Consolidated statement of cash flows

For the year ended 30 June 2014

$000	Notes	Actual 2014	Actual 2013	Budget 2014
Cash flows from operating activities				
Cash was provided from:				
Levy revenue		4,766,354	4,737,923	4,639,567
Interest		742,657	674,609	708,756
Dividends		273,775	281,948	252,530
Other income		21,955	5,982	11,076
		5,804,741	**5,700,462**	**5,611,929**
Cash was applied to:				
Payments to injured persons, suppliers and employees		3,434,430	3,071,773	3,381,885
Goods and services tax (net)		3,799	9,912	286
		3,438,229	**3,081,685**	**3,382,171**
Net cash movement from operating activities	*28*	**2,366,512**	**2,618,777**	**2,229,758**
Cash flows from investing activities				
Cash was provided from:				
Proceeds from sale of investments		45,295,636	31,121,712	45,000,000
Proceeds from sale of property, plant and equipment		429	7,024	–
		45,296,065	**31,128,736**	**45,000,000**
Cash was applied to:				
Payment for investments		47,554,754	33,539,367	47,174,758
Payment for property, plant and equipment		6,783	3,163	11,068
Payment for intangible assets		41,635	39,104	43,932
		47,603,172	**33,581,634**	**47,229,758**
Net cash movement from investing activities		**(2,307,107)**	**(2,452,898)**	**(2,229,758)**
Net increase in cash and cash equivalents		**59,405**	**165,879**	**–**
Cash and cash equivalents – opening balance		**406,784**	**240,905**	**392,886**
Cash and cash equivalents – closing balance		**466,189**	**406,784**	**392,886**

The accompanying notes form part of these financial statements.

Statement of commitments

As at 30 June 2014

$000	Consolidated Actual 2014	Consolidated Actual 2013
Capital commitments approved and contracted	**37,997**	**170,474**
Non-cancellable operating lease commitments:		
Not later than one year	16,799	16,818
Later than one year but not greater than two years	15,431	15,468
Later than two years but not greater than five years	40,315	39,062
Later than five years	55,846	65,395
Total non-cancellable operating lease commitments	**128,391**	**136,743**
Total commitments	**166,388**	**307,217**

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 date of the lease on current rental rates.

Capital commitments

The majority of these are investment-related commitments.

At 30 June 2014, ACC had a commitment to a lessee to reimburse them for costs of $0.9 million incurred in extending a building.

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 $134.3 million (2013: $143.7 million) in these funds. As at 30 June 2014, ACC had undrawn commitments to these funds totalling $36.5 million (2013: $50.3 million). The private equity portfolio is split between New Zealand, Australian and overseas equities.

At 30 June 2013, ACC had entered into agreements to purchase a property and build an extension to a current property. These commitments totalled $59.7 million and were settled in July 2013 and May 2014 respectively. ACC had also entered into agreements to purchase fixed interest securities for $60.0 million, settled in July, August and November 2013.

Statement of contingent liabilities and assets

As at 30 June 2014

The estimated contingent liabilities are as follows:

$000	Consolidated Actual 2014	 Actual 2013
Legal proceedings	561	115
Total contingent liabilities	**561**	**115**

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 which could arise as these disputes are issue based and ACC's active management of litigation means that it will be either settling or 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.

There were no contingent assets as at 30 June 2014 and 2013.

Notes to the financial statements

For the year ended 30 June 2014

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 liabilities 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.

Standards and interpretations issued but not yet effective.

PBE Standards will be applicable for ACC for the period ended 30 June 2015 and consist of the following standards:

- Standard XRB A1 Accounting Standards Framework, which is the overarching standard that sets out the accounting standards framework
- a suite of 39 PBE Standards

- the Public Benefit Entities (conceptual) Framework.

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. From the review of the standards it is unlikely that there will be any significant recognition and measurement differences arising on the adoption of PBE Standards. The main differences will be changes to the disclosures included in the notes to the financial statements. Examples of potential differences include the disclosure of related parties under PBE IPSAS 20 Related Party Disclosures which exempts all transactions between related parties (except key management personnel remuneration) that occur on arm's length terms and conditions from disclosure, and provides a potentially wider definition of key management personnel compared to NZ IAS 24 Related Party Disclosures.

(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 subsidiary 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 has control.

Consistent accounting policies are applied to the subsidiary's 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 18.

(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 from 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 costs 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.

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

Levy revenue relating to levy periods that have 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 the 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 assets 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 company is however liable for income tax. There are no trading subsidiaries in ACC.

(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). Due 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-date, the date on which the group commits to purchase or sell the asset.

Investments are recognised initially at fair value. 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 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 derivative financial instruments is covered by investment policies which 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.

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 are 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 are valued using quoted market bid yields and exchange rate at the 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 interest 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.

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 subsidiary is the New Zealand dollar.

Foreign currency transactions are accounted for at the exchange rates prevailing at the date 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.

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.

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.

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 the 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, and long service leave entitlements expected to be settled within 12 months.

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 are not discounted.

(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 2014 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 that 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 (refer to Note n)
- derivative financial instruments (refer to Note o)
- investment properties (refer to Note r)
- receivables (refer to Note m).

(ad) Budget figures

The budget figures in the financial statements are those provided in ACC's Statement of Intent 2013-2016. Section 154(3) of the Crown Entities Act 2004 requires these 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 2012 using discount rates at 31 March 2013. Refer to Note 33.

The budget figures have been prepared in accordance with generally accepted accounting practice in New Zealand 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 have been no changes in accounting policies.

(af) Financial statements of the parent

As at 30 June 2014, separate parent financial statements have not been disclosed as the ACC Board does 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 understatement of any component of the liability. Due 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 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 impact future trends, and scanning the horizon for possible changes that may affect trends in the future.

Where possible both the number of claims receiving payments and the average amount 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 each 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 claim 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 impact 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 with 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.

Discounting methodology

Estimated future claim payments are adjusted in line with expectations of future inflation. These inflated cash flows are then discounted using the Treasury prescribed risk free rates that are based on the yield curves of New Zealand government bond rates. The longest term of a current New Zealand government bond is approximately nine years from now. 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 24 and 25.

Gradual process claims

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 excessive noise).

Due 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 work-related gradual process, disease or infection which, in accordance with section 37 of the AC Act, is at the earlier of either 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 26.

The Ministry of Business, Innovation and Employment is considering recommending 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.

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 11 and 12.

(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 16.

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

Where the fair values of financial assets recorded in 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 the balance date ACC recorded $22.9 million (2013: $71.9 million) of asset-backed securities where the fair value was determined by the valuation technique above. Refer to Note 15(f).

(e) Impairment of intangible assets

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

(f) Going concern assumption

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

At 30 June 2014, ACC was in a negative equity position of $108.3 million (2013: $2.3 billion). However ACC has no external debt, substantial investments and has positive operating cash flows. ACC expects to meet its ongoing commitments and to be fully funded in the Motor Vehicle Account by 2019. The Earners' and Work Accounts are already fully funded.

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.

3. Underwriting result

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

$000	2014 Total	Motor Vehicle Account	Non-Earners Account	Earners' Account	Work Account	Treatment Injury Account	2013 Total
Net levy revenue	**4,730,514**	**1,064,551**	**907,265**	**1,405,728**	**1,028,813**	**324,157**	**4,714,835**
Rehabilitation (including treatment) costs							
Vocational rehabilitation	59,143	5,841	486	33,473	18,433	910	45,783
Social rehabilitation	454,932	137,102	154,733	53,779	62,259	47,059	418,712
Medical treatment	553,601	20,559	227,187	221,881	77,188	6,786	503,220
Hospital treatment	282,281	17,639	67,689	130,305	49,292	17,356	254,463
Public health acute services	449,680	46,072	283,632	88,541	28,667	2,768	437,618
Dental treatment	23,147	1,048	11,922	7,223	2,748	206	21,054
Conveyance for treatment	87,493	13,244	48,918	17,705	6,698	928	81,428
	1,910,277	**241,505**	**794,567**	**552,907**	**245,285**	**76,013**	**1,762,278**
Compensation costs							
Income maintenance	837,931	129,244	12,953	353,740	310,938	31,056	758,396
Independence allowances	74,081	13,082	31,271	12,569	13,490	3,669	39,792
Lump sums	35,654	5,772	7,189	4,319	12,058	6,316	31,237
Death benefits	89,046	29,671	5,513	28,024	21,408	4,430	89,755
	1,036,712	**177,769**	**56,926**	**398,652**	**357,894**	**45,471**	**919,180**
Miscellaneous claim costs	12,037	5,384	(1,389)	671	4,051	3,320	(42,291)
Claims handling costs	376,172	40,476	84,638	138,770	93,291	18,997	330,680
Increase (decrease) in outstanding claims liability							
Expected change	1,012,612	209,354	198,324	317,274	48,685	238,975	1,134,416
Effect of claims experience and modelling	(16,774)	(1,715)	(11,509)	(7,192)	(40,622)	44,264	(1,195,211)
Effect of changes in risk margin	3,834	27,026	–	23,863	(19,426)	(27,629)	–
Effect of changes in economic assumptions	(922,278)	(270,117)	(203,009)	(161,876)	(154,099)	(133,177)	(1,173,349)
Effect of legislative and policy changes	456,717	95,592	100,388	13,131	204,362	43,244	–
	534,111	**60,140**	**84,194**	**185,200**	**38,900**	**165,677**	**(1,234,144)**
Total claims incurred	**3,869,309**	**525,274**	**1,018,936**	**1,276,200**	**739,421**	**309,478**	**1,735,703**
Movement in unexpired risk liability	159,472	–	–	159,472	–	–	(26,515)
Injury prevention costs	34,010	9,692	5,546	6,683	11,982	107	22,391
Other operating costs	86,324	8,017	4,104	28,551	45,317	335	84,676
Surplus (deficit) from underwriting activities	**581,399**	**521,568**	**(121,321)**	**(65,178)**	**232,093**	**14,237**	**2,898,580**

4. Net levy revenue

$000	Consolidated 2014	2013
Levy revenue	4,737,552	4,724,977
(Less):		
Levy debts written off	(42,034)	(12,064)
Change in provision for impairment	34,996	1,922
Total net levy revenue	**4,730,514**	**4,714,835**

5. Net investment income

$000	Consolidated 2014	2013
Investment income		
Rental income from investment properties	16,917	10,966
Income from concession rights arrangement	4,391	401
Financial assets at fair value through profit or loss (designated upon initial recognition)		
Dividend income	270,033	286,514
Interest income	666,628	579,840
Net realised and unrealised gains (losses) on foreign exchange	(433,008)	102,877
Other net realised and unrealised gains	881,400	1,094,474
	1,385,053	**2,063,705**
Financial assets and financial liabilities at fair value through profit or loss (held for trading purposes)		
Interest income	98,745	105,524
Net realised and unrealised gains on foreign exchange	322,561	173,314
Other net realised and unrealised (losses)	(209,200)	(263,470)
	212,106	**15,368**
Total investment income	**1,618,467**	**2,090,440**
Investment costs		
Investment costs	54,341	58,744
Direct expenses from investment properties generating income	1,576	1,996
Total investment costs	**55,917**	**60,740**
Total net investment income	**1,562,550**	**2,029,700**

Included in investment costs is $15.1 million (2013: $16.3 million) for brokerage fees on equity transactions.

Investment income is net of foreign withholding tax of $8.0 million (2013: $10.7 million).

6. Other income

$000	Consolidated 2014	2013
Other income	897	915
Total other income	**897**	**915**

7. Total income – gross

$000	Consolidated 2014	2013
Levy revenue	4,737,552	4,724,977
Investment income	1,618,467	2,090,440
Other income	897	915
Total income	**6,356,916**	**6,816,332**

8. Claims incurred

	Consolidated					
	2014			2013		
$000	Current year	Prior years	Total	Current year	Prior years	Total
Undiscounted	8,224,638	(4,489,810)	3,734,828	7,685,339	(2,816,717)	4,868,622
Discount movement	(4,417,989)	4,552,470	134,481	(4,149,232)	1,016,313	(3,132,919)
Total claims incurred	**3,806,649**	**62,660**	**3,869,309**	**3,536,107**	**(1,800,404)**	**1,735,703**

Current year claims relate to risks borne in the current financial year. Prior year claims relate to a reassessment of the claims assumptions (eg 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 the discount rate and natural unwinding of the discount, as the claims move one year closer to settlement.

CoverPlus Extra policies

There were payments of $5.8 million (2013: $5.7 million) relating to work-related injuries to clients who had purchased weekly compensation under CoverPlus Extra policies from the Work Account during the year. There were 43,339 (2013: 42,237) CoverPlus Extra policies purchased during the year.

Non-work injury payments of $10.1 million (2013: $9.1 million) were paid from the Earners' and Motor Vehicle Accounts.

9. Analysis of expenses

(a) Expenses by function

$000	Consolidated 2014	2013
Investment costs	55,917	60,740
Injury prevention costs	34,010	22,391
Operating costs	462,496	415,356
Total expenses[1]	**552,423**	**498,487**

(b) Included in the above are:

$000	Consolidated 2014	2013
Fees paid to auditors:		
– audit fees	610	615
– other services[2]	47	38
ACC Board members' fees	433	254
Rental of office premises	16,123	16,781
Depreciation:		
– Buildings	30	7
– Leasehold improvements	3,120	2,712
– Furniture, fittings and equipment	759	720
– Computer equipment	7,468	5,653
– Motor vehicles	782	860
Property, plant and equipment write-offs (back):		
– Computer equipment	–	(45)
– Furniture, fittings and equipment	–	(2)
– Leasehold improvements	4	(299)
Property, plant and equipment (gain) loss on disposal:		
– Buildings	–	(1,541)
– Freehold improvements	–	367
– Leasehold improvements	210	294
– Computer equipment	1	36
– Motor vehicles	(215)	(432)
Amortisation of intangible assets	40,967	41,536
Write-offs of intangible assets	4,091	1,000
Operating lease equipment rentals	3	1
Bad debts written off - non levy related	–	25
Change in provision for doubtful debts - non levy related	(32)	(4)
Restructuring costs	124	324
Personnel expenditure[3]	255,335	231,937

Note:

1. Total expenses were allocated to Accounts for 2014 using activity-based costing methodology.
2. Fees paid to auditors for other services include fees for assurance related services and the provision of technical accounting assistance and recovery of costs relating to facilities' hire and staff training.
3. Personnel expenditure includes salaries, superannuation, contractors' costs, ACC levies paid and movement in the provision for employee benefits, but excluding termination benefits which are included in restructuring costs. Defined contribution superannuation expense for the group was $16.5 million (2013: $12.0 million).

10. Cash and cash equivalents

$000	Consolidated 2014	2013
Cash (overdraft) at bank	(2,869)	21,391
Investment operational cash:		
Overnight call deposits	151,492	178,665
Deposits at call	–	25,257
New Zealand short term fixed interest securities	317,566	181,471
Total cash and cash equivalents	**466,189**	**406,784**

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 2014 was 3.4% (2013: 2.7%).

11. Receivables

$000	Consolidated 2014	2013
Self-employed debtors	62,077	92,060
Employers debtors	68,725	55,847
Motor vehicle levy receivable(i)	35,831	56,924
Non-Earners' appropriation	498	50,748
Total levy receivables	**167,131**	**255,579**
Client debtors(ii)	3,517	3,894
PAYE receivable(iii)	137	215
Unsettled investment transactions	318,009	66,121
Dividends receivable	21,803	25,529
Interest receivable	595	975
Prepayments	6,660	5,744
Sundry debtors	7,470	6,474
Total non-levy receivables	358,191	108,952
Total receivables	525,322	364,531
Current	524,988	364,509
Non-current	334	22
Total receivables	**525,322**	**364,531**

Note:

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 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.

(ii) Client debt results when an overpayment on a claim has been recognised and is unable to be immediately repaid.

(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 2014	2013
Current	109,470	199,667
Past due 1-30 days	17,674	22,127
Past due 31-60 days	11,427	11,361
Past due > 60 days	28,560	22,424
Total	**167,131**	**255,579**

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 $347.7 million (2013: $99.9 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 levy receivables due to changes in credit risk is an increase of $35.0 million (2013: increase of $1.9 million).

The cumulative change in fair value of receivables due to changes in credit risk is a decrease of $69.3 million (2013: $104.3 million).

12. Accrued levy revenue

$000	Consolidated 2014	2013
Motor Vehicle Account	102,287	113,966
Earners' Account	1,157,493	1,247,059
Work Account	1,206,246	1,245,791
Total accrued levy revenue	**2,466,026**	**2,606,816**
Current	2,466,026	2,606,816
Non-current	–	–
Total accrued levy revenue	**2,466,026**	**2,606,816**

ACC recognises and accrues levy revenue up to the end of the levy year for the three levy-funded Accounts. The levy year runs from 1 April to 31 March for the Earners' Account and Work Account and from 1 July to 30 June for the Motor Vehicle Account.

The accrued levy revenue at 30 June 2014 therefore includes revenue for the period 1 July 2014 to 31 March 2015 for the Earners' and Work Accounts as well as uninvoiced revenue for levy periods up to 30 June 2014.

13. Investments

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

$000	Consolidated 2014	2013
New Zealand deposits at call	360,254	357,728
New Zealand equities	2,833,624	2,696,463
New Zealand government securities	8,557,798	6,396,360
Other New Zealand debt securities	5,788,999	5,763,323
Australian deposits at call	10,945	68,702
Australian equities	1,502,076	1,343,184
Other investments	63,200	18,839
Overseas deposits at call	168,285	195,307
Overseas equities	4,452,857	5,276,100
Overseas debt securities	3,629,873	2,500,348
Total investments	**27,367,911**	**24,616,354**
Current	1,074,800	996,015
Non-current	26,293,111	23,620,339
Total investments	**27,367,911**	**24,616,354**

Repurchase agreements

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 $825.2 million (2013: $705.1 million) from these transactions is invested, and the liability to repurchase the investments is accrued in unsettled investment transactions (refer to Note 21).

	Consolidated			
	2014		2013	
$million	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	2.0	2.2	0.4	0.4
New Zealand government securities - repurchase agreements	823.2	834.1	704.7	715.9
	825.2	**836.3**	**705.1**	**716.3**

14. Derivative financial instruments

Fair value of derivative financial instruments

The fair value of the significant types of derivative financial instruments outstanding as at 30 June 2014 are summarised below:

	Consolidated			
	2014		2013	
$000	Fair value assets	Fair value liabilities	Fair value assets	Fair value liabilities
Interest rate swaps	90,106	185,114	163,433	140,416
Credit default swaps	2,726	279	809	737
Cross-currency interest rate swaps	14,031	2,444	454	26,181
Forward foreign currency contracts	30,887	7,258	84,614	9,453
Futures contracts	3,706	6,892	5,184	6,606
Options	10	24	–	1,398
Total derivative instruments	**141,466**	**202,011**	**254,494**	**184,791**
Current	34,607	14,175	89,798	17,522
Non-current	106,859	187,836	164,696	167,269
Total derivative instruments	**141,466**	**202,011**	**254,494**	**184,791**

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

	Consolidated	
$000	2014	2013
Interest rate swaps	4,954,543	5,911,707
Credit default swaps	90,674	59,553
Cross-currency interest rate swaps	389,778	738,289
Forward foreign currency contracts	4,794,877	4,796,120
Futures contracts - long	274,600	340,960
Futures contracts - short	(1,092,014)	(648,832)
Options	31,243	177,519

15. Financial instruments

(a) Categories of financial instruments

	Consolidated	
$000	2014	2013
Financial assets designated as at fair value through profit or loss		
Cash and cash equivalents	466,189	406,784
Receivables (Note 11)	514,791	355,476
Investments	27,367,911	24,616,354
Financial assets at fair value through profit or loss held for trading		
Derivative financial assets	141,466	254,494
Financial liabilities at fair value through profit or loss held for trading		
Derivative financial liabilities	202,011	184,791
Financial liabilities measured at amortised cost		
Payables	1,100,171	993,101

(b) Financial 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 together 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 that ACC is primarily exposed to 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).

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 which 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 percentage weight of any particular company in the portfolio relative to its benchmark weight; limits on 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 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 different 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.

(c) 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 exposure 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 highly sensitive to interest rates. 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 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 2014, if the interest rate at that date had been 1% higher/lower with all other variables remaining constant, the net surplus would have moved as per the table below. Any change in the net surplus for the period would result in a corresponding movement in equity.

Cash Flow Interest Risk	Change in interest rate %	2014 Impact on net surplus $000	2013 Impact on net surplus $000
New Zealand dollar interest rates	+1.0	23,645	59,344
New Zealand dollar interest rates	-1.0	(23,645)	(59,344)

Fair Value Interest Risk	Change in interest rate %	2014 Impact on net surplus $000	2013 Impact on net surplus $000
Long-term New Zealand dollar interest rates	+1.0	(1,175,249)	(1,002,960)
Long-term New Zealand dollar interest rates	-1.0	1,343,882	1,166,716

The above only shows the impact of changes in interest rates on ACC's investment portfolios. Changes in interest rate also have an impact on the outstanding claims liability. Refer to Note 25(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 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 reporting date:

	Average contracted fixed interest rate		Notional amount		Fair value	
	2014	2013	2014	2013	2014	2013
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	3.83	2.52	341,578	82,657	9,985	(56)
Greater than three years	4.48	4.39	4,612,965	5,829,050	(104,993)	23,073
			4,954,543	**5,911,707**	**(95,008)**	**23,017**

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 could 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 whilst maximising expected return.

Practically, the Investment Committee has set benchmarks which would require all foreign exchange exposures from the Australian equity portfolio to be hedged, whilst allowing for a portion of the 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 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 11 months or less. While the cross currency interest rate swaps have maturities out to seven 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 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 for the period would result in a corresponding movement in equity.

2014 $000	AUD	USD	EUR	GBP	CHF	JPY	CAD	OTHER
Impact on net surplus								
10% increase	(37,652)	(164,395)	(65,706)	(61,556)	(20,362)	(38,797)	(5,065)	(34,301)
10% decrease	46,019	200,927	80,307	75,235	24,887	47,419	9,455	41,924

2013 $000	AUD	USD	EUR	GBP	CHF	JPY	CAD	OTHER
Impact on net surplus								
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

(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 and
- 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.

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 at reporting date, with other variables held constant. Any change in the net surplus for the period would result in a corresponding movement in equity.

	Movement %	2014 Impact on net surplus $000	2013 Impact on net surplus $000
Global equities	+10	445,286	527,315
	-10	(445,286)	(527,315)
New Zealand equities	+10	272,385	264,329
	-10	(272,385)	(264,329)
Private equities	+10	10,977	9,576
	-10	(10,977)	(9,576)
Australian equities	+10	150,208	132,239
	-10	(150,208)	(132,239)

(d) 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 instruments are undertaken with authorised banks with which ACC has executed International Swaps and Derivatives Association (ISDA) documentation. Credit 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 continuously 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 impact 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 2014 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.

2014 $000	AAA	AA	A	BBB	Below BBB	Not rated	Total
Cash and cash equivalents	–	445,899	478	19,812	–	–	466,189
Deposits at call	5,598	280,973	237,494	–	–	15,419	539,484
Other New Zealand debt securities	1,707,544	2,771,677	687,209	359,217	–	263,352	5,788,999
Overseas debt securities	2,703,380	222,924	130,446	323,762	116,762	132,599	3,629,873
New Zealand government securities	–	8,557,792	–	–	–	6	8,557,798
Interest rate swaps	–	61,150	4,037	37,683	–	1,267	104,137
Forward foreign currency contracts	–	24,281	6,497	109	–	–	30,887
Receivables	–	–	173,702	–	–	341,089	514,791
Accrued levy revenue	–	–	–	–	–	2,466,026	2,466,026
	4,416,522	**12,364,696**	**1,239,863**	**740,583**	**116,762**	**3,219,758**	**22,098,184**

ACC has an additional exposure of $2.4 million with regard to the credit default swaps. This is the risk of the underlying entity defaulting on their contractual obligations (2013: $0.8 million).

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**

(e) 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 2014 $000	Less than 1 year	Between 1–2 years	Between 2–5 years	Greater than 5 years
Payables	1,100,171	–	–	–
Uncalled private equity commitments	5,694	3,171	5,933	21,431

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

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

At 30 June 2014 $000	Less than 1 year	Between 1–2 years	Between 2–5 years	Greater than 5 years
Derivative financial instruments	78,230	57,846	131,349	122,643

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

(f) Fair values

The fair value 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 (private equity and venture capital) are fair value at the initial cost of investment and adjusted for the 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 approximate 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 some securitised assets for which there is currently no active market for pricing purposes. 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 2014 ACC held $nil (2013: $8.3 million) of residential mortgage backed bonds originated by Property Finance Securities for which there is no market price. This investment was realised during the year.

At 30 June 2014 ACC held $10.9 million (2013: $26.9 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 2014 is based on a valuation methodology which 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 2014 ACC held $12.0 million (2013: $18.2 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 2014 is based on a valuation methodology which 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 2014 ACC held $nil (2013: $18.5 million) of residential mortgage backed bonds issued by Liberty NZ Series 2007-1 trusts for which there is no market price. This investment matured during the year.

These instruments represent 0.085% (2013: 0.296%) of total investment assets which were $27,076 million in 2014 (2013: $24,249 million).

(g) Fair value hierarchy

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

The table below analyses financial instruments carried at fair value at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position.

The three levels of fair value measurement have been defined as follows:

- 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 (ie as prices) or indirectly (ie derived from prices).
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at 30 June 2014	Consolidated			
$000	**Level 1**	**Level 2**	**Level 3**	**TOTAL**
Financial assets				
Derivative financial instruments				
Interest rate swaps	–	90,106	–	90,106
Credit default swaps	–	2,726	–	2,726
Cross currency swaps	–	14,031	–	14,031
Forward foreign currency contracts	–	30,887	–	30,887
Futures	3,706	–	–	3,706
Options	–	10	–	10
	3,706	**137,760**	**–**	**141,466**
Financial assets designated at fair value through profit or loss				
New Zealand equities	2,696,913	–	136,711	2,833,624
New Zealand government securities	–	8,557,798	–	8,557,798
New Zealand debt securities	25,784	5,648,669	114,546	5,788,999
Australian equities	1,469,668	16,082	16,326	1,502,076
Other investments	–	–	63,200	63,200
Overseas equities	4,428,500	–	24,357	4,452,857
Overseas debt securities	–	3,622,600	7,273	3,629,873
	8,620,865	**17,845,149**	**362,413**	**26,828,427**
	8,624,571	**17,982,909**	**362,413**	**26,969,893**
Financial liabilities				
Derivative financial instruments				
Interest rate swaps	–	(185,114)	–	(185,114)
Credit default swaps	–	(279)	–	(279)
Cross currency swaps	–	(2,444)	–	(2,444)
Forward foreign currency contracts	–	(7,258)	–	(7,258)
Futures	(6,892)	–	–	(6,892)
Options	–	(24)	–	(24)
	(6,892)	**(195,119)**	**–**	**(202,011)**

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)**

Reconciliation of Level 3 fair value movements

	Consolidated	
$000	2014	2013
Opening balance	**280,476**	**359,266**
Total gains (losses) recognised in surplus or deficit	43,508	22,146
Total gains (losses) recognised in other comprehensive income	–	–
Purchases	170,204	45,722
Sales	(161,154)	(101,992)
Interest	217	371
Issues	–	–
Settlements	(203)	–
Transfers into Level 3	31,251	10,987
Transfers out of Level 3	(1,886)	(56,024)
Closing balance	**362,413**	**280,476**
Total gains (losses) stated on Level 3 instruments still held at balance date	**36,715**	**(17,128)**

Transfers between levels

During the year, certain investment securities were transferred into Level 3 when pricing inputs became unavailable and prices had to be evaluated using unobservable inputs. A small number of investment securities were also transferred out of Level 3 when it was determined that the level was not appropriate for the securities.

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

Level 3 sensitivity analysis

For the fair values of investments in private equity holdings, convertible notes, structured securitised assets and other investments in Level 3, reasonably possible changes at the reporting date to one or more of the significant unobservable inputs, holding other inputs constant, would have the following effects:

$000	2014 Impact on net surplus Increase	2014 Impact on net surplus Decrease	2013 Impact on net surplus Increase	2013 Impact on net surplus Decrease
Private equity holdings	**10,977**	**(10,977)**	**9,576**	**(9,576)**
Changes in the calculated share price of private equity investments (10% movement)				
Convertible notes	**(1,959)**	**1,481**	**(1,705)**	**1,855**
Change in credit spread (25 basis points movement)				
Other investments	**(5,000)**	**6,400**	**–**	**–**
Change in discount rate (25 to 200 basis points movement)				
Change in market growth rate of land values (1% movement)				
Change in percentage of properties sold (1% movement)				
Structured securities – asset-backed securities	**(257)**	**(220)**	**147**	**118**
Change in interest rates (100 basis points movement)				

All 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.

16. Investment properties

$000	Consolidated Land	Consolidated Buildings	Consolidated Total
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**
Opening balance as at 1 July 2013	**103,919**	**56,471**	**160,390**
Additions	31,848	33,177	65,025
Net gains (losses) from revaluations	(5,837)	15,292	9,455
Closing balance as at 30 June 2014	**129,930**	**104,940**	**234,870**

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 (ANZIV), who are independent valuers of Colliers International NZ Limited. The properties are valued under a combination of the capitalisation approach, discounted cash flow method and direct comparison with prices for properties of a similar nature.

17. Investment intangible asset

Investment intangible asset is a concession right deed that was acquired in 2013. The arrangement expires in 2037.

$000	Consolidated 2014	2013
Year ended 30 June		
Opening net carrying amount	55,600	–
Additions	86	56,000
Amortisation charge	(2,400)	(400)
Closing net carrying amount	**53,286**	**55,600**
At 30 June		
At cost	56,086	56,000
Accumulated amortisation	(2,800)	(400)
Net carrying amount at 30 June	**53,286**	**55,600**

18. 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 2014	2013	Investment 2014 $	2013 $	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.

19. Property, plant and equipment

Consolidated

$000	Land	Buildings	Leasehold improvements	Furniture, fittings and equipment	Computer equipment	Motor vehicles	Total
At 1 July 2012							
At cost and valuation	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 1 July 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 and valuation	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**
Year ended 30 June 2014							
Opening net carrying amount	100	279	12,249	1,444	21,988	2,914	38,974
Additions	–	1	3,152	1,712	949	969	6,783
Depreciation charge	–	(30)	(3,120)	(759)	(7,468)	(782)	(12,159)
Other (includes disposals)	–	–	(229)	16	(1)	(215)	(429)
Closing net carrying amount	**100**	**250**	**12,052**	**2,413**	**15,468**	**2,886**	**33,169**
At 30 June 2014							
At cost and valuation	100	890	34,415	24,675	79,489	5,080	144,649
Accumulated depreciation	–	(640)	(22,363)	(22,262)	(64,021)	(2,194)	(111,480)
Net carrying amount at 30 June 2014	**100**	**250**	**12,052**	**2,413**	**15,468**	**2,886**	**33,169**

(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.

(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 the year.

20. Intangible assets

Consolidated

$000	Internally generated computer software	Acquired computer software	Total
At 1 July 2012			
At cost	378,336	18,132	396,468
Accumulated amortisation	(260,440)	(18,132)	(278,572)
Net carrying amount at 1 July 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	(1,000)	–	(1,000)
Amortisation charge	(41,536)	–	(41,536)
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**
Year ended 30 June 2014			
Opening net carrying amount	114,464	–	114,464
Additions	41,635	–	41,635
Impairment losses	(4,091)	–	(4,091)
Amortisation charge	(40,967)	–	(40,967)
Closing net carrying amount	**111,041**	**–**	**111,041**
At 30 June 2014			
At cost	402,264	11,348	413,612
Accumulated amortisation	(287,610)	(11,348)	(298,958)
Accumulated impairment	(3,613)	–	(3,613)
Net carrying amount at 30 June 2014	**111,041**	**–**	**111,041**

(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 $4.1 million were recognised for the year ended 30 June 2014 (2013: $1.0 million).

(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 has a net carrying value as at 30 June 2014 of $32.0 million (2013: $45.4 million). There are between two and seven years remaining in amortisation.

21. Payables and accrued liabilities

$000	Consolidated 2014	2013
Unsettled investment transactions	1,038,374	936,962
PAYE and earnings related deductions	2,928	2,097
Claims expenditure	162,710	141,670
Occupational safety and health	9	936
Sundry creditors	3,680	3,859
Levies overpaid by Inland Revenue	11,817	12,540
Goods and services tax	18,098	21,897
Other accrued expenditure	49,836	51,550
Total payables and accrued liabilities	**1,287,452**	**1,171,511**
Current	1,287,452	1,171,511
Non-current	–	–
Total payables and accrued liabilities	**1,287,452**	**1,171,511**

22. Provisions

$000	Consolidated 2014	2013
Employee benefits	37,759	36,037
Restructuring	63	–
Leasehold restoration	1,686	1,835
Interest on weekly compensation payments	14,942	15,003
Compensation and rehabilitation costs	16,000	14,900
Onerous contracts	146	1,454
Total provisions	**70,596**	**69,229**
Current	60,583	58,534
Non-current	10,013	10,695
Total provisions	**70,596**	**69,229**

Movements in provisions

Movement for each class of provision is set out below.

(a) Employee benefits

$000	Consolidated 2014	2013
Opening balance	36,037	32,793
Paid out during the year	(31,818)	(29,203)
Additional provision made during the year	36,158	33,315
Reversal of unused provision	(2,618)	(868)
Closing balance	**37,759**	**36,037**

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

(b) Restructuring

$000	Consolidated 2014	2013
Opening balance	–	159
Paid out during the year	(61)	(484)
Provision made during the year	124	325
Closing balance	**63**	**–**

A provision for costs was made arising from the restructure of the executive management team.

(c) Leasehold restoration

$000	Consolidated 2014	2013
Opening balance	1,835	2,359
Paid out during the year	(30)	–
Additional provision made during the year	13	40
Reversal of unused provision	(132)	(564)
Closing balance	**1,686**	**1,835**

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

(d) Interest on weekly compensation

$000	Consolidated 2014	2013
Opening balance	15,003	14,787
Paid out during the year	(5,706)	–
Additional provision made during the year	5,645	216
Closing balance	**14,942**	**15,003**

This provision was made as a result of a decision from the Court of Appeal which 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 2014	2013
Opening balance	14,900	14,700
Paid out during the year	(34)	–
Additional provision made during the year	1,134	200
Closing balance	**16,000**	**14,900**

The 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 2014	2013
Opening balance	1,454	2,446
Paid out during the year	(1,133)	(1,291)
Provision made during the year	205	299
Reversal of unused provision	(380)	–
Closing balance	**146**	**1,454**

ACC has two non-cancellable leases for office space that has been vacated due to earthquake risk. The leases do not expire until 21 October 2014 and 31 March 2015 and are unlikely to be able to be sub-let. A provision has been recognised for the obligation of the future lease payments. There was a non-cancellable lease that expired at 31 July 2013.

23. Unearned levy liability

$000	2014 Total	Motor Vehicle Account	Earners' Account	Work Account	2013 Total
Opening balance at 1 July	2,241,710	396,485	1,144,857	700,368	2,183,444
Deferral of levies recognised in the year	2,049,626	386,439	1,025,546	637,641	2,241,710
Earnings of levies recognised in previous years	(2,241,710)	(396,485)	(1,144,857)	(700,368)	(2,183,444)
Closing balance at 30 June	**2,049,626**	**386,439**	**1,025,546**	**637,641**	**2,241,710**
Current	2,049,410	386,223	1,025,546	637,641	2,241,379
Non-current	216	216	–	–	331
Total unearned levy liability	**2,049,626**	**386,439**	**1,025,546**	**637,641**	**2,241,710**

ACC recognises levy revenue that will be earned up to the end of the levy year for the three levy-funded Accounts. The levy year runs from 1 April to 31 March for the Earners' Account and Work Account and from 1 July to 30 June for the Motor Vehicle Account.

At 30 June 2014 ACC has therefore recognised levy revenue for the period 1 July 2014 to 31 March 2015 for both the Earners' and the Work Accounts.

ACC also recognises Motor Vehicle Account levies paid on vehicle registrations and petrol prior to 30 June 2014, but where the vehicle registration expires after 30 June 2014 and the petrol will not be used until after 30 June 2014.

Levies recognised at 30 June 2014 but relating to periods after this date have not yet been earned by ACC. This levy revenue is deferred in the financial statements as an unearned levy liability.

24. Unexpired risk liability

$000	2014 Total	Motor Vehicle Account	Earners' Account	Work Account	2013 Total
Opening balance at 1 July	**42,077**	**–**	**42,077**	**–**	**68,592**
Recognition of additional unexpired risk liability in the period	201,549	–	201,549	–	42,077
Release of unexpired risk liability recorded in previous periods	(42,077)	–	(42,077)	–	(68,592)
Closing balance at 30 June	**201,549**	**–**	**201,549**	**–**	**42,077**
Calculation of deficiency					
Unearned levy liability as reported in statement of financial position	2,049,626	386,439	1,025,546	637,641	2,241,710
Adjustment[(i)]	(113,950)	–	(113,950)	–	–
Adjusted unearned levy liability	**1,935,676**	**386,439**	**911,596**	**637,641**	**2,241,710**
Central estimate of present value of expected future cash flows arising from future claims	1,643,817	173,065	1,000,789	469,963	1,651,944
Risk margin	185,618	23,034	112,356	50,228	286,753
Present value of expected future cash flows for future claims	**1,829,435**	**196,099**	**1,113,145**	**520,191**	**1,938,697**
Deficiency (surplus)	**(106,241)**	**(190,340)**	**201,549**	**(117,450)**	**(303,013)**
Adjustment for surplus in Account[(ii)]	307,790	190,340	–	117,450	345,090
Total unexpired risk liability	**201,549**	**–**	**201,549**	**–**	**42,077**
Current	201,549	–	201,549	–	42,077
Non-current	–	–	–	–	–
Total unexpired risk liability	**201,549**	**–**	**201,549**	**–**	**42,077**

Note:

(i) In 2014 the approach was changed to exclude the earners portion of treatment injury in the Earners' Account as the liabilities that are assessed exclude those arising from medical misadventure.

(ii) 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 2014.

A liability adequacy test was not performed for the Non-Earners' Account as there was no unearned levy liability as at 30 June 2014 for this Account.

Risk margin

The process for determining the overall risk margin, including the way in which diversification of risks has been allowed for is discussed in Note 25(a). The overall risk margin is intended to achieve a 75% probability of sufficiency.

Risk margins applied by Account are as follows:

	2014	2013
Motor Vehicle	13.8%	24.2%
Earners'	11.6%	15.9%
Work	11.6%	19.1%
Treatment Injury	13.8%	25.9%
Overall margin (weighted average)	**12.9%**	**18.2%**

The risk margins determined for the unexpired risk liability relate to future claims payments for injuries that have yet to happen. The risk margins have been changed this year to be consistent with that used for the outstanding claims liability valuation.

25. Outstanding claims

(a) Outstanding claims liability (discounted)

$000	30 June 2014 Total	Motor Vehicle Account	Non Earners' Account	Earners' Account	Work Account	Treatment Injury Account	30 June 2013 Total
Rehabilitation							
Medical treatment	1,857,941	233,476	624,500	537,822	337,439	124,704	1,806,012
Rehabilitation	13,854,203	4,306,844	3,281,374	1,956,383	1,984,332	2,325,270	13,340,518
	15,712,144	**4,540,320**	**3,905,874**	**2,494,205**	**2,321,771**	**2,449,974**	**15,146,530**
Compensation							
Income maintenance	6,258,750	1,718,933	386,866	1,775,832	1,930,214	446,905	6,249,366
Impairment benefits	917,635	156,584	398,984	152,760	140,099	69,208	979,232
	7,176,385	**1,875,517**	**785,850**	**1,928,592**	**2,070,313**	**516,113**	**7,228,598**
Central estimate of present value of future claims payments	**22,888,529**	**6,415,837**	**4,691,724**	**4,422,797**	**4,392,084**	**2,966,087**	**22,375,128**
Present value of the operating costs of meeting these claims	1,626,164	423,723	252,697	348,062	459,957	141,725	1,671,217
Bulk billed costs	9,136	988	5,729	1,793	572	54	8,846
	24,523,829	**6,840,548**	**4,950,150**	**4,772,652**	**4,852,613**	**3,107,866**	**24,055,191**
Risk margin	**3,172,533**	**943,996**	**683,120**	**553,628**	**562,903**	**428,886**	**3,107,060**
Outstanding claims liability	**27,696,362**	**7,784,544**	**5,633,270**	**5,326,280**	**5,415,516**	**3,536,752**	**27,162,251**
As at beginning of year	**27,162,251**	**7,724,404**	**5,549,076**	**5,141,080**	**5,376,616**	**3,371,075**	**28,396,395**
Movement during the year	**534,111**	**60,140**	**84,194**	**185,200**	**38,900**	**165,677**	**(1,234,144)**
Weighted average term to settlement	15 yrs 8 mths	16 yrs 2 mths	19 yrs 2 mths	13 yrs 1 mth	10 yrs 4 mths	21 yrs 10 mths	15 yrs 11 mths

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 estimates 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:

	2014	2013
Motor Vehicle	13.8%	13.4%
Non-Earners'	13.8%	13.8%
Earners'	11.6%	11.1%
Work	11.6%	12.0%
Treatment Injury	13.8%	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, Consumer Price Index 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) Risk margin – the risk margin to allow for the relative uncertainty of the outstanding claims estimate. The risk margin allows for a 75% probability of sufficiency

(iv) Claims experience and modelling – changes to actuarial assumptions and/or modelling methods, for example claims 'run-off' patterns, and key inflation indicators to reflect actual experience and/or future events that may have an impact on the number and size of claims

(v) Payments experience – the difference between actual and projected payments

(vi) Legislative and policy changes – involving improved modelling of legislative and policy changes to sensitive claims, hearing loss and judicial rulings

(vii) 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 as the discount unwind

(viii) Claims anticipated over the year – is the expected claim costs arising from new accidents in the year to 30 June 2014. The cost is the present value of projected payments post 30 June 2014 plus the expected payments to be made in the year ended 30 June 2014

(ix) Claims payments and handling costs – is the actual claims paid and the actual claims handling costs incurred over the year ended 30 June 2014

$000	30 June 2014 Total	Motor Vehicle Account	Non Earners' Account	Earners' Account	Work Account	Treatment Injury Account	30 June 2013 Total
Outstanding claims brought forward	**27,162,251**	**7,724,404**	**5,549,076**	**5,141,080**	**5,376,616**	**3,371,075**	**28,396,395**
Effect of changes in inflation assumptions	(829,473)	(245,381)	(187,484)	(141,832)	(131,012)	(123,764)	(234,248)
Effect of changes in discount rates	(92,805)	(24,736)	(15,525)	(20,044)	(23,087)	(9,413)	(939,101)
Effect of changes in risk margin	3,834	27,026	–	23,863	(19,426)	(27,629)	–
Effect of claims experience and modelling	(16,774)	(1,715)	(11,509)	(7,192)	(40,622)	44,264	(1,195,211)
Effect of payments experience	(298,104)	(57,751)	(74,285)	(84,953)	(62,776)	(18,339)	(492,627)
Effect of legislative and policy changes	456,717	95,592	100,388	13,131	204,362	43,244	–
Effect of discount unwind	706,305	203,750	145,218	129,743	138,177	89,417	682,895
Claims anticipated over the year	3,939,609	528,489	1,062,133	1,363,484	673,805	311,698	3,913,995
Incurred claims recognised in the underwriting result	**3,869,309**	**525,274**	**1,018,936**	**1,276,200**	**739,421**	**309,478**	**1,735,703**
Claims payments and handling costs	(3,335,198)	(465,134)	(934,742)	(1,091,000)	(700,521)	(143,801)	(2,969,847)
Outstanding claims carried forward	**27,696,362**	**7,784,544**	**5,633,270**	**5,326,280**	**5,415,516**	**3,536,752**	**27,162,251**

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

$000	30 June 2014 Total	Motor Vehicle Account	Non Earners' Account	Earners' Account	Work Account	Treatment Injury Account	30 June 2013 Total
Liability for outstanding claims - undiscounted	73,169,609	19,586,146	18,539,107	11,531,597	8,459,479	15,053,280	71,296,430
Liability for claims handling costs - undiscounted	3,458,826	967,280	649,558	642,004	816,894	383,090	3,513,009
Discount to present value - outstanding claims	(50,271,944)	(13,169,321)	(13,841,654)	(7,107,007)	(4,066,822)	(12,087,140)	(48,912,456)
Discount to present value - claims handling costs	(1,832,662)	(543,557)	(396,861)	(293,942)	(356,938)	(241,364)	(1,841,792)
Liability for outstanding claims - discounted	22,897,665	6,416,825	4,697,453	4,424,590	4,392,657	2,966,140	22,383,974
Liability for claims handling costs - discounted	1,626,164	423,723	252,697	348,062	459,956	141,726	1,671,217
Total outstanding claims liability - discounted	**24,523,829**	**6,840,548**	**4,950,150**	**4,772,652**	**4,852,613**	**3,107,866**	**24,055,191**
Risk margin	3,172,533	943,996	683,120	553,628	562,903	428,886	3,107,060
Total outstanding claims liability with risk margin	**27,696,362**	**7,784,544**	**5,633,270**	**5,326,280**	**5,415,516**	**3,536,752**	**27,162,251**
Current	2,176,500	415,795	361,585	674,192	572,586	152,342	2,037,852
Non-current	25,519,862	7,368,749	5,271,685	4,652,088	4,842,930	3,384,410	25,124,399
Total outstanding claims liability with risk margin	**27,696,362**	**7,784,544**	**5,633,270**	**5,326,280**	**5,415,516**	**3,536,752**	**27,162,251**

(d) Claims development table

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

$000	Accident year 2008	2009	2010	2011	2012	2013	2014	Total
Estimate of ultimate claim costs:								
At end of accident year	5,502,035	7,103,138	7,034,693	7,517,025	6,876,758	6,793,665	7,264,452	
One year later	6,709,125	6,733,342	6,738,577	6,288,195	6,118,016	6,607,789	–	
Two years later	6,469,689	6,713,810	5,938,507	5,890,253	5,545,685	–	–	
Three years later	6,411,714	6,045,476	5,722,485	5,309,905	–	–	–	
Four years later	5,735,852	5,582,871	5,273,901	–	–	–	–	
Five years later	5,482,681	5,540,060	–	–	–	–	–	
Six years later	5,332,187	–	–	–	–	–	–	
Current estimate of cumulative claim costs	**5,332,187**	**5,540,060**	**5,273,901**	**5,309,905**	**5,545,685**	**6,607,789**	**7,264,452**	**40,873,979**
Cumulative payments	(1,841,327)	(1,717,799)	(1,413,988)	(1,311,080)	(1,266,720)	(1,211,519)	(809,729)	(9,572,162)
Outstanding claims - undiscounted	**3,490,860**	**3,822,261**	**3,859,913**	**3,998,825**	**4,278,965**	**5,396,270**	**6,454,723**	**31,301,817**
				Discount				(22,196,303)
				Claims handling costs				1,832,798
				2007 and prior claims				16,742,143
				Short tail outstanding claims				15,907
				Outstanding claims - per statement of financial position				**27,696,362**

(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 claim is made, being the date of treatment.

Actuarial estimate

An independent actuarial estimate by PricewaterhouseCoopers, consulting actuaries, 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 Michael Playford and Mr Darryl Frank, Fellows of the Institute of Actuaries of Australia. Mr Paul Rhodes and Mr Michael Playford are also Fellows of the New Zealand Society of Actuaries.

The actuarial estimate has been made based on actual experience to 30 June 2014. 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 NZIFRS 4: Insurance Contracts.

In determining the actuarial estimate, the independent actuaries have relied on 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 25(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:

	2014		2013	
	Year 1 % p.a.	Beyond Year 1 % p.a.	Year 1 % p.a.	Beyond Year 1 % p.a.
1. Discount rate	3.7%	4.04% to 5.5%	2.71%	3.14% to 5.50%
2. Inflation rates:				
weekly compensation	3.1%	3.1% to 3.5%	3.0%	3.3% to 3.5%
impairment benefits	1.9%	1.9% to 2.5%	1.1%	2.0% to 2.5%
social rehabilitation benefits[(a)]	2.3%	2.3% to 2.7%	2.2%	2.5% to 2.7%
hospital rehabilitation benefits[(b)]	2.3%	2.3% to 2.7%	2.2%	2.5% to 2.7%
short-term medical costs[(c)]	2.3%	2.3% to 2.7%	2.2%	2.5% to 2.7%
other medical costs[(c)]	2.3%	2.3% 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 movement in the Labour Cost Index.

(a) Social rehabilitation (which represents around 69% of rehabilitation liability) has an allowance for superimposed inflation which differs by type of payment eg 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: movement 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:

2014 Financial year ending	2015	2016	2017–2018	2019–2020	2021–2024	2025–2029	2030+
Annual superimposed inflation	1.8%	5.6%	5.6% to 5.7%	5.6%	3.0% to 3.1%	3.0%	2.3% to 2.9%

2013 Financial year ending	2014	2015–2016	2017–2018	2019–2020	2021–2024	2025–2029	2030+
Annual superimposed inflation	2.1%	5.4%	5.3%	5.2%	3.2%	3.1%	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 an accident have been increasing significantly over the past years. An allowance has been made for superimposed inflation of 7.7% p.a. for three years starting from 2015 followed by 1.0% p.a. thereafter (2013: 1.0% p.a. for 2014 followed by 7.7% p.a. for three 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 (2013: 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.

	2014			2013		
	2015	2016–2019	2020+	2014	2015–2019	2020+
Short term medical						
General Practitioners	4.00%	4.00%	3.00%	2.00%	4.00%	3.00%
Radiology	5.75%	5.75%	5.00%	4.25%	5.75%	5.00%
Physiotherapists	2.30%	2.30%	2.00%	1.70%	2.30%	2.00%
Other medical	**3.25%**	**3.25%**	**2.50%**	**1.75%**	**3.25%**	**2.50%**

Risk free discount rate

The risk free rates are prescribed by the Treasury and based predominantly on the yield curve of the New Zealand government bond rates. The longest term of a current New Zealand government bond is approximately nine years from now. 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:

	2014	2013
Motor Vehicle	6.7%	6.9%
Non-Earners'	5.4%	5.6%
Earners'	7.9%	8.2%
Work	10.8%	11.2%
Treatment Injury	4.8%	5.0%
Overall margin (weighted average)	**7.2%**	**7.5%**

(i) Process used to determine assumptions

DISCOUNT RATE

The projected cash flows were discounted using a series of forward discount rates at the 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 5.01%.

INFLATION RATES

Short term Consumer Price Index (CPI) inflation rates are prescribed by the Treasury. Assumptions for the Labour Cost Index (LCI) and Average Wage Earning (AWE) are based on their historic relationship with 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.

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 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 are shown in the following table. Each change, which includes the risk margin, has been calculated in isolation to other changes.

	Movement	2014 Impact on net surplus $million	2013 Impact on net surplus $million
Discount rate	+1.0%	3,585	3,628
	-1.0%	(4,759)	(4,823)
Inflation rate	+1.0%	(4,917)	(4,966)
	-1.0%	3,754	3,788
Long term real rate of return	+0.5%	576	602
	-0.5%	(911)	(865)
Superimposed inflation (excluding social rehabilitation for serious injury claims)	+1.0%	(1,053)	(1,028)
	-1.0%	792	774
Discounted mean term	+1 year	826	820
	-1 year	(852)	(846)
Superimposed inflation for social rehabilitation for serious injury claims after two years	+1.0%	(2,433)	(2,564)
	-1.0%	1,792	1,875
Long term continuance rates for non-fatal weekly compensation	+1.0%	(702)	(707)
	-1.0%	586	611

(f) Undiscounted outstanding claims liability

The reported outstanding claims liability of $27,696 million (2013: $27,162 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 2014. These estimated cash flows include the effects of assumed future inflation.

	Includes risk margin		Excludes risk margin	
$million	2014	2013	2014	2013
Less than one year	2,212	2,063	1,966	1,834
Between one and two years	1,669	1,536	1,482	1,364
Between two and five years	4,498	4,088	3,990	3,628
Between five and 10 years	7,049	6,506	6,247	5,769
Between 10 and 15 years	6,619	6,427	5,861	5,693
Between 15 and 20 years	6,599	6,516	5,839	5,767
Between 20 and 25 years	6,746	6,669	5,965	5,898
Between 25 and 30 years	6,825	6,766	6,031	5,981
Between 30 and 35 years	6,810	6,755	6,014	5,967
Between 35 and 40 years	6,660	6,604	5,878	5,829
Between 40 and 45 years	6,357	6,300	5,608	5,556
Between 45 and 50 years	5,897	5,836	5,199	5,142
Greater than 50 years	18,790	18,636	16,548	16,381
Undiscounted outstanding claims liability	**86,731**	**84,702**	**76,628**	**74,809**

(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 to Notes 11 and 15), liquidity risk (refer to Note 15), 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 (eg earthquake, tsunami) which 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.

(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.

26. 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 2014 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 has occurred before 1 July 1999 but a claim has not yet been made.

	Consolidated	
$000	2014	2013
Reserve available for future gradual process claims where exposure occurred before 1 July 1999 – opening balance	**393,300**	**232,600**
Adjustment to prior years' claims incurred[1]	(5,200)	31,100
Levy revenue attributable to future gradual process claims where exposure occurred before 1 July 1999	133,300	127,300
Investment income attributable to the assets of the reserve for future gradual process claims where exposure occurred before 1 July 1999	31,300	32,200
Payments for gradual process claims made during the year	(6,400)	(6,500)
Liability for gradual process claims made during the year	(30,100)	(23,400)
Reserve available for future gradual process claims where exposure occurred before 1 July 1999 – closing balance	**516,200**	**393,300**

1 *Adjustment to reflect actual payments and updated assumptions for 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 which have been made as at 30 June 2014 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 has already occurred before 1 July 1999 and between 1 July 1999 and 30 June 2014 but for which a claim had not yet been made as at 30 June 2014. 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 claims where sufficient data is available to permit a reasonable actuarial estimate of the additional obligation.

	Consolidated	
$000	2014	2013
Present value of obligation for future gradual process claims not yet made where exposure occurred before 1 July 1999	(572,800)	(408,400)
Present value of obligation for future gradual process claims not yet made where exposure occurred between 1 July 1999 and balance sheet date	(433,100)	(239,600)
Present value of obligation for all future gradual process claims not yet made	**(1,005,900)**	**(648,000)**

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 was $1,280 million. As at 30 June 2014, the present value of this future revenue from 1 July 2014 to 31 March 2019 is $720 million (2013: $822 million).

	Consolidated	
$000	2014	2013
Reserve available for future gradual process claims where exposure occurred before 1 July 1999 – closing balance	516,200	393,300
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	720,000	822,300
Present value of obligation for future gradual process claims not yet made where exposure occurred before 1 July 1999	(572,800)	(408,400)
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	**663,400**	**807,200**

27. Asset revaluation reserves

	Consolidated	
$000	2014	2013
Land revaluation reserve		
Balance at the beginning of the year	30	2,833
Revaluation (decrease)	–	(40)
Transfer to Account reserves	–	(2,763)
Balance at the end of the year	**30**	**30**
Building revaluation reserve		
Balance at the beginning of the year	271	252
Revaluation increase	–	19
Balance at the end of the year	**271**	**271**
Total asset revaluation reserves	**301**	**301**

28. Cash flows

Reconciliation of net cash inflow from operating activities with the reported net surplus

	Consolidated		
$000	Actual 2014	Actual 2013	Budget 2014
Net surplus	**2,144,846**	**4,929,195**	**1,847,235**
Add (less) items classified as investing activities:			
(Gains) losses on sale of property, plant and equipment	(4)	(1,276)	(240)
Realised (gains) losses on sale of investments	(700,570)	(916,255)	(302,689)
Add (less) non-cash items:			
Depreciation	12,159	9,952	11,882
Amortisation of intangible assets	40,967	41,536	42,359
Intangible assets impairments/write-offs	4,091	1,000	–
Property, plant and equipment write-offs (back)	4	(346)	–
Fair value (gains) losses on investments	(240,966)	127,503	–
Net adjustments to investments from foreign exchange (unrealised)	379,783	(318,443)	–
Movement in provision for employee benefits	1,722	3,244	–
Movement in provision for restructuring costs	63	–	–
Movement in provision for leasehold restoration	(149)	(524)	–
Movement in provision for interest on weekly compensation	(61)	216	–
Movement in provision for compensation and rehabilitation costs	1,100	200	–
Movement in provision for onerous contracts	(1,308)	(992)	–
Change in provision for impairment of levy debtors	(34,996)	(1,922)	–
Movement in unexpired risk liability	159,472	(26,515)	11,391
Increase (decrease) in outstanding claims liability	534,111	(1,234,144)	593,234
Add (less) movements in working capital items:			
In receivables and accrued levy revenue	243,787	(42,003)	(25,609)
In payables and accrued liabilities	14,545	(9,915)	1,624
In unearned levy liability	(192,084)	58,266	50,571
Net cash inflow from operating activities	**2,366,512**	**2,618,777**	**2,229,758**

29. 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 18.

(a) Significant transactions with government related entities

ACC has been provided with funding from the Crown of $1,062.4 million (2013: $1,201.3 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 $464.1 million (2013: $451.7 million) and the various District Health Boards totalling $182.5 million (2013: $162.3 million). The amount outstanding at balance date was $147.9 million (2013: $137.8 million). ACC made GST payments to Inland Revenue during the year totalling $370.1 million (2013: $368.0 million). The amount outstanding at balance date was $18.1 million (2013: $21.9 million).

ACC also made payments to Inland Revenue for collection of earner levies during the year totalling $20.5 million (2013: $20.5 million). The amount payable to Inland Revenue at 30 June was $13.7 million (2013: $12.5 million). ACC made payments to the NZ Transport Agency for collection of motor vehicle levies totalling $0.9 million (2013: $0.9 million). The motor vehicle levy receivable from the NZ Transport Agency at 30 June was $11.4 million (2013: $29.0 million). ACC made payments to New Zealand Customs Service for collection of petrol levies totalling $0.02 million (2013: $0.02 million). The petrol levy receivable from the New Zealand Customs Service at 30 June was $24.6 million (2013: $27.9 million). ACC made payments to FairWay Resolution Limited (previously known as Dispute Resolution Services Limited) for personal injury and mediation services totalling $10.7 million (2013: $13.9 million).

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

ACC has received levies from entities controlled, significantly 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) Key management personnel

The compensation for key management personnel is set out below:

	Consolidated	
$000	2014	2013
Short-term employee benefits and Board members' fees	4,875	3,980
Post employee benefits	–	–
Termination benefits	–	–
	4,875	**3,980**

Key management personnel compensation includes the compensation of members of the Board, Chief Executive and members of the Executive. 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 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 (2013: $nil).

30. 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 Motor Vehicle, Earners' and Work 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 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 from 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 financial sustainability and levy stability.

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	2014	2013
Net assets (excluding outstanding claims liability)	27,588	24,909
Outstanding claims liability	27,696	27,162
Funding ratio	**99.6%**	**91.7%**

31. Reinsurance

ACC has no catastrophe reinsurance as the cost to fully 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.

32. Events after the balance sheet date

ACC is a 45% investor in the Wellington Gateway Partnership SPV project company. On 29 July 2014 the Wellington Gateway Partnership and the NZ Transport Agency reached financial close for the NZ$1 billion Transmission Gully road project, delivered as a Public Private Partnership. ACC will be providing $57.3 million of equity to the project, and additionally will be lending $123.1 million of long term debt.

There were no other significant events after balance date that require separate disclosure.

33. Explanation of significant variances against budget

As stated in the summary of significant accounting policies, the budget figures are those in the ACC's Statement of Intent 2013-2016. The Statement of Intent 2013-2016 was prepared based on the claims valuation as at 31 December 2012 using discount rates at 31 March 2013.

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 reflecting improved general economic conditions supporting higher total employment and wages in the economy. The increase in net levy revenue compared to budget was achieved despite reductions in levy rates in the Work and Earners' Accounts from 1 April 2014, which had not been anticipated in the budget.

Investment income

Investment income can be highly variable as it is dependent on movements in equity, bond and foreign exchange markets. ACC budgets for investment income based on a projected 20 year median rate of return. This means that ACC expects to exceed budget for 10 out of the next 20 years, and similarly to achieve lower returns than budget for 10 out of the next 20 years.

Investment income was higher than budgeted due to stronger equity markets.

Claims paid

Claims paid costs were higher than budget primarily because the number of newly registered claims for the year was 4.7% higher than the previous year. This rate of increase in claims was significantly higher than anticipated in the budget. An analysis commissioned by ACC indicates that claims numbers are highly linked to the state of the general economy, and the increase in claims numbers reflects improved general economic conditions.

Increase in outstanding claims liability

The budgeted change in the outstanding claims liability was based on the December 2012 actuarial valuation of claims liability and economic factors (such as actual interest rates) at 31 March 2013. The actual change in outstanding claims liability was based on the June 2014 actuarial valuation of claims liability using economic factors at 30 June 2014.

The actual increase in the outstanding claims liability was slightly less than budget due to the combination of multiple economic and actuarial factors, the most significant of which was that the assumption of the rates of inflation for future price increases reduced between the December 2012 and the June 2014 actuarial valuations (refer to Note 25 (e)).

Movement in unexpired risk liability

The unexpired risk liability (URL) is the shortfall, if any, by Account between the levy income that ACC will earn for a future period where the rate of levy income has been fixed and the actuarially calculated costs of claims arising over the same future period. The budgeted increase in URL was the difference between the budgeted calculation of the URL at 30 June 2013 and the budgeted calculation of the URL at 30 June 2014.

The actual increase in URL was higher than the budgeted increase in URL because of the reduction in the levy rate in the Earners' Account from 1 April 2014 which had not been anticipated in the budget. As a result the URL at 30 June 2014 was higher than budgeted because the reduction in levy rate meant that future levy income was lower than budgeted, and the shortfall between future levy income and actuarially calculated costs increased (refer to Note 24).

(b) Statement of financial position

Receivables

The receivables balance is lower than budgeted. The major component of receivables is money owed to ACC for unsettled investment transactions, such as the sale of equities and bonds. These transactions are settled within a few days in accordance with market rules.

ACC actively trades its investments to maximise income based on real-time assessments of investment opportunities by the investment team. The volume of daily investment trading, and consequently the size of the receivables balance, varies substantially over time as these assessments change. At the time the budget was compiled market opportunities suggested a very active investment trading strategy with a correspondingly high short term receivables balance; however as at 30 June 2014 market conditions resulted in lower investment trading volumes than anticipated when the budget was compiled 15 months earlier.

Investments

The net investment asset balance is higher than budget reflecting the higher than budgeted investment income earned over the financial year, due to the excellent performance of the investment team combined with movements in investment markets.

Payables and accrued liabilities

The payables and accrued liabilities balance is lower than budgeted. Similar to the receivables balance, the major component of payables and accrued liabilities is money owed by ACC for unsettled investment transactions such as the purchase of equities and bonds. Investment market conditions resulted in lower trading volumes in the days immediately before 30 June 2014 and therefore a lower short term payables balance than anticipated when the budget was compiled.

Outstanding claims liability

The actual outstanding claims liability, based on the June 2014 actuarial valuation of claims liability using economic factors at 30 June 2014, is lower than the budgeted outstanding claims liability based on the December 2012 actuarial valuation of claims liability and economic factors at 31 March 2013.

The budgeted outstanding claims liability was estimated in two stages – firstly the expected change in liability from 31 March 2013 (when the budget was finalised) to 30 June 2013, and then the expected change from 1 July 2013 to 30 June 2014.

Whilst the actual change in outstanding claims liability from 1 July 2013 to 30 June 2014 was very close to budget, the outstanding claims liability unexpectedly reduced substantially between 31 March 2013 and 30 June 2013 due to changes in economic factors over those three months.

(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.

(d) Statement of cash flows

Net cash inflow from operating activities was marginally higher than budgeted due to higher levy revenue reflecting the improvement in economic conditions and better than budgeted investment income. This was partially countered by higher than budgeted payments relating to claims costs reflecting the higher than anticipated increase in the number of newly registered claims. The increase in cash inflow permitted slightly more cash than budgeted to be used for investment activities.

Chartered Accountants

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 2014

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 48 to 109, that comprise the statement of financial position as at 30 June 2014, 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 35 to 46.

Opinion

In our opinion:

- the financial statements of the Corporation and group on pages 48 to 109:
  - comply with generally accepted accounting practice in New Zealand; and
  - fairly reflect the Corporation and group's:
    - financial position as at 30 June 2014; 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 35 to 46:
  - 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 2014, 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 23 September 2014. 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.

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 assurance related services, technical accounting assistance, cost recovery relating to facilities hire and staff training we have no relationship with or interests in the Corporation or any of its subsidiaries.

Partners and employees of Ernst & Young may deal with the Corporation on normal terms within the ordinary course of trading activities of the business of the Corporation. Ernst & Young also sub-leases office space from the Corporation on normal commercial terms.

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	
	2014	2013
$100,000 - $110,000	126	99
$110,000 - $120,000	81	64
$120,000 - $130,000	60	38
$130,000 - $140,000	39	36
$140,000 - $150,000	22	28
$150,000 - $160,000	23	23
$160,000 - $170,000	21	13
$170,000 - $180,000	11	9
$180,000 - $190,000	13	11
$190,000 - $200,000	10	5
$200,000 - $210,000	11	7
$210,000 - $220,000	5	1
$220,000 - $230,000	4	3
$230,000 - $240,000	–	1
$240,000 - $250,000	1	1
$250,000 - $260,000	8	9
$260,000 - $270,000	1	2
$270,000 - $280,000	3	1
$280,000 - $290,000	2	1
$290,000 - $300,000	1	–
$300,000 - $310,000	2	1
$310,000 - $320,000	1	2
$320,000 - $330,000	–	1
$330,000 - $340,000	3	1
$340,000 - $350,000	–	2
$350,000 - $360,000	1	–
$360,000 - $370,000	–	1
$370,000 - $380,000	–	1
$380,000 - $390,000	1	1
$390,000 - $400,000	1	–
$400,000 - $410,000	1	1
$410,000 - $420,000	1	–
$420,000 - $430,000	1	–
$440,000 - $450,000	2	–
$490,000 - $500,000	–	1
$510,000 - $520,000	1	–
$530,000 - $540,000	1	–
$540,000 - $550,000	–	2
$550,000 - $560,000	–	1
$560,000 - $570,000	–	1
$570,000 - $580,000	1	–
$600,000 - $610,000	2	1
$610,000 - $620,000	–	1
$620,000 - $630,000	1	–
$700,000 - $710,000	1	–
$760,000 - $770,000	–	1
$780,000 - $790,000	–	1
$810,000 - $820,000	1	–
	464	**372**
Average remuneration of above employees	**$151,535**	**$153,479**

Three staff received redundancy payments or settlement payments in 2014 totalling $61,274 (2013: 20 staff $479,062).

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 over the past several years to provide for the future costs of injuries that have occurred before July 2014 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) are listed below.

- 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 rates.[1] 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

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

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 outstanding 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, a strengthening in the New Zealand dollar against foreign currencies, or if our investment performance were worse than market benchmarks.

The balance of ACC's assets and liabilities can also be significantly affected by actuarial factors that have nothing to do with interest rates, inflation, or other clearly identifiable economic variables. There is little that our investment policy can do to offset these 'non-economic' actuarial risks. The presence of these 'non-economic' risks means that there is a natural limit to how far the investment policy can be used to reduce uncertainty about ACC's future funding position.

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 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 of offshore investments.

Consequently, ACC makes a significant contribution to New Zealand's capital markets, and is one of the largest investors in New Zealand companies, owning about 3% of the market capitalisation of the New Zealand sharemarket, (4.5% of the available shares, excluding strategic shareholding blocks such as the Government's shares in the gen-tailers). ACC holds an even greater proportion of New Zealand dollar investment-grade bonds.

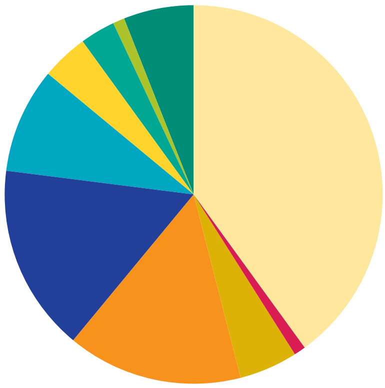
Each of ACC's Accounts splits its investment funds between an investment in ACC's short-term 'cash portfolio', used to meet near-term expenditure requirements, and its own longer-term 'Reserves Portfolio', set aside to meet the future costs of existing claims.

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 their 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



- New Zealand Bonds 42%
- New Zealand Private Equity <1%
- Australian Equity* 5%
- Global Equity* 15%
- New Zealand Index Linked Bonds 16%
- New Zealand Equity 9%
- New Zealand and Aust Property and Infrastructure 4%
- Global Bonds 3%
- Other <1%
- Reserves Cash 6%

* *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 of interest rate derivatives represented 8% of total reserves at the end of June 2014.*

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 outperformance 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 to 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 use derivatives only 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 New Zealand sharemarket slightly lagged its global peers, returning just over 15%.

The New Zealand dollar rose against most major currencies over the year, which reduced the New Zealand dollar returns from unhedged investments in offshore markets.

New Zealand bond yields rose by about 0.25% over the year. Whilst bond yields also increased slightly in the United States and the United Kingdom, they declined in most other countries.

Future investment returns

The rise in New Zealand bond yields had a slight adverse impact on our investment income over the 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 outstanding claims liability which in turn has a downward influence on the overall value of our claims liability.

We think that the strong return from equity markets over the past year reduces the prospect of strong equity returns in the future. As a consequence, we have reduced our allocation to equity markets. 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 2013/14 year

ACC's Reserves Portfolios delivered an average return of 6.33%.

This return was somewhat disappointing in the context of the strong returns from equity markets.

Our investment return exceeded the average return of market-based benchmarks by just 0.1% over the year.

The reported returns are expressed prior to the deduction of 0.14% of investment-related costs, but they are expressed after the deduction of 0.04% of offshore withholding taxes paid by ACC (whereas ACC's benchmarks are calculated on the basis of 'gross' indices which make no deduction for withholding taxes). Taking account of both of these factors, we performed exactly in line with our market benchmarks on a pre-tax net-of-costs basis. This is a marginally better outcome than what ACC would have achieved if it had invested all its funds using a low-cost passive approach (as passive investment also incurs a small level of investment cost).

This almost-flat relative performance was the net result of various factors.

- ACC's internally managed bond portfolios significantly outperformed their benchmarks. The portfolios benefitted from a narrowing in yield spreads on non-government bonds.
- ACC's internally managed New Zealand equity portfolios significantly outperformed their benchmarks. The outperformance was due to contributions from a large number of distinct positions, and was not dominated by any single theme or holding.
- ACC's foreign exchange positioning detracted -0.24% from relative performance. For most of the year ACC chose to maintain a higher-than-neutral level of exposure to unhedged foreign currency investments, which hurt performance as the New Zealand dollar rose during the year. In the following table, the benefit of ACC's foreign exchange positioning is included in the performance of the global equity, global bond and Australian equity asset classes.
- As global equity markets rose during the year, ACC progressively reduced its effective exposure to equities (by selling both equities and equity futures). However, as equity markets continued to rise further over the course of the year, asset allocation decisions other than currency positioning detracted -0.49% from ACC's relative performance.
- ACC's global equity portfolios underperformed their benchmarks, by an average of -0.5% (excluding the effect of ACC's foreign exchange positioning).
- ACC's Australian equity portfolios outperformed their benchmarks by an average of 0.6% prior to ACC's currency hedging decision, due principally to an 11% outperformance by an internally managed portfolio of small-capitalisation equities.
- ACC's global bond portfolio (managed externally by Pimco) outperformed its benchmark by 1.6%. The under-performance shown in the following table is entirely due to ACC's currency hedging decisions.
- ACC achieved healthy returns from its direct property, infrastructure, and private equity portfolios.

Considering returns on a risk-adjusted basis, we believe that we should require a higher return if we are taking greater-than-normal risk, but we should also be willing to accept a lower return if we are taking lower-than-average risk. In our assessment, ACC's Reserves Portfolios took significantly less risk than the benchmark position for most of 2013/14, and the Reserves Portfolios therefore achieved significant outperformance on a risk-adjusted basis.

Annual portfolio returns

		2013/14 financial year		Average past 3 years	
	$million	Portfolio	Benchmark	Portfolio	Benchmark
Cash portfolio	**476**	**3.1%**	**2.8%**	**3.1%**	**2.7%**
Reserves Portfolios by asset class:					
Reserves cash	867	3.2%	2.8%	3.1%	2.7%
New Zealand index linked bonds	4,399	1.2%	1.1%	3.1%	1.9%
New Zealand bonds	11,244	3.7%	2.2%	6.8%	5.3%
New Zealand equity	2,490	17.1%	14.8%	15.4%	15.0%
New Zealand private equity*	136	17.2%		11.4%	
New Zealand and Australia property & infrastructure	948	12.6%	10.7%	11.7%	12.1%
Australian equity	1,217	15.8%	16.4%	4.3%	5.9%
Global bonds	756	0.8%	4.6%	8.5%	7.1%
Global equity	4,830	9.8%	10.8%	9.8%	9.2%
Interest rate derivative overlay[1]	-8	0.0%	0.0%	0.2%	0.4%
Equity future overlay[1*]	81	-0.4%		0.0%	
Total reserves	**26,960**	**6.3%**	**6.2%**	**8.6%**	**7.9%**
By Account:					
Earners'	6,939	6.3%	6.3%	8.2%	7.6%
Motor Vehicle	7,913	6.1%	5.9%	8.6%	8.0%
Work	6,747	6.2%	6.2%	8.5%	7.8%
Non-Earners'	2,769	6.8%	6.6%	8.9%	8.3%
Treatment Injury	2,591	7.0%	6.8%	9.2%	8.7%
Total reserves	**26,960**	**6.3%**	**6.2%**	**8.6%**	**7.9%**

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. Investments in the financial statements are measured at fair value under IAS 39 Financial Instruments: Recognition and Measurement.

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 $34.4 million (including fees paid to external fund managers and the remuneration of ACC's investment staff), which detracted -0.14% from investment returns in 2013/14. 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%.

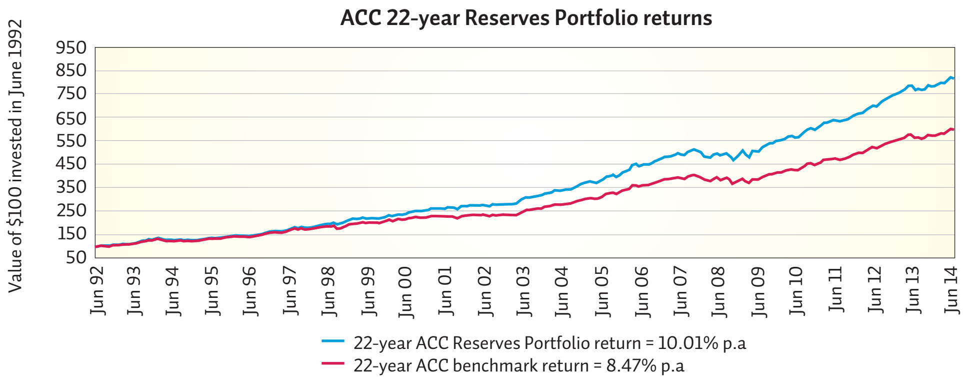
Long term investment performance

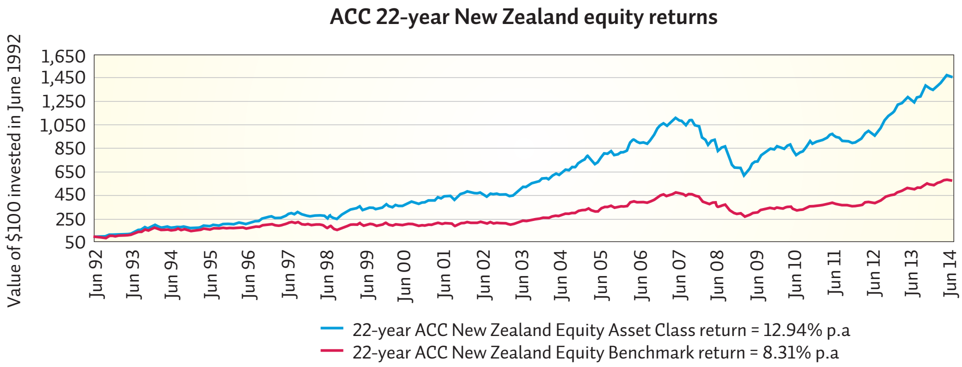
ACC has now been measuring the performance of its investment portfolios on a market-value basis for 22 years.

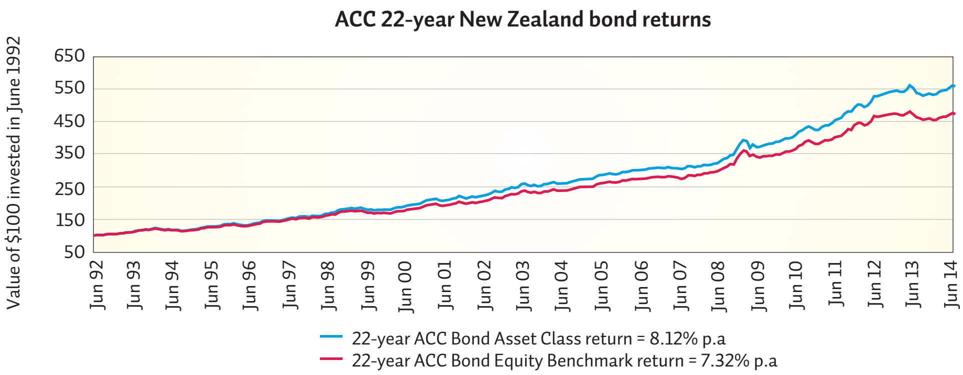
- The New Zealand bond portfolio has outperformed its benchmark in 21 of these 22 years.
- The New Zealand equity portfolio has outperformed its benchmarks in 19 of the past 22 years.
- ACC's overall Reserves Portfolio has also outperformed its composite benchmarks for 21 of the past 22 years, (although in one of these 22 years ACC performed only in line with benchmark after allowing for investment costs).

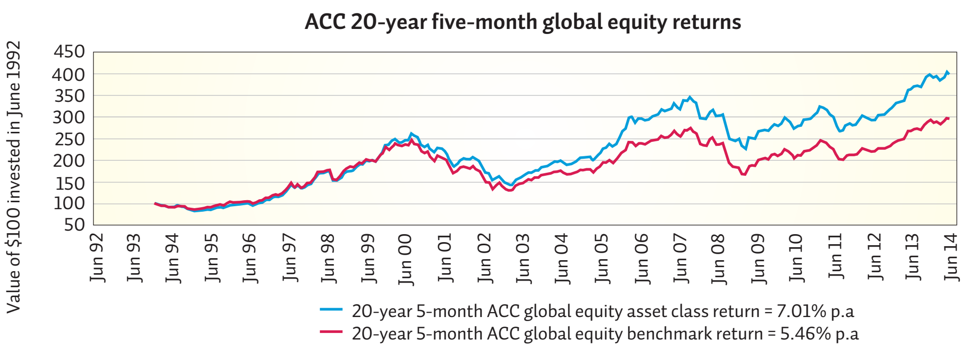
We are not aware of any other large diversified fund anywhere in the world that can match the consistency of ACC's Reserves Portfolio's outperformance during this turbulent period for investment markets.

This has helped ACC's Reserves Portfolio to achieve compound returns of 10% per annum for the past 22 years, which is higher than the returns that could have been achieved by passively investing in any major investment market over that 22-year period. Through the returns that ACC has achieved, every dollar that ACC had invested 22 years ago has effectively grown to be worth $8.16 today.









Growth in ACC's investment portfolios

ACC's Reserves Portfolios increased in value by 11.9% from $24.1 billion last year to $26.96 billion at the end of June 2014. This growth came from a combination of investment returns and adding 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.

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 4.5%.

Investment benchmarks

Like most other fund managers, we compare the make-up and performance of ACC's investment portfolios with 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 that 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 Reserves 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 Reserves 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 22 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 the appropriate benchmarks 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 22-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 22-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 Reserves Portfolio would suggest that each year there is roughly a one-in-six chance that we could record negative returns. In reality, we have had just one financial year of negative returns in the past 22 years (2007/08, when the Reserves Portfolio returned -0.8%).

Statistical analysis based on the past two decades would suggest that for any given year there is less than a 0.5% 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 outstanding 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 32% of their reserves' funds invested in equity markets. This means that, all else being constant, a generalised decline in foreign and domestic equity markets of approximately 14% 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 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 (ie $135 million). The only individual credit exposures representing more than 1% of the Reserves Portfolio (ie $240 million) are to the New Zealand Government, the Local Government Funding Authority, three banking groups with strong credit ratings and New Zealand banking licenses, the Auckland Council, and two AAA-rated funding vehicles controlled by fiscally secure European governments.

ACC's 50 largest equity investments

Company name	ACC's investment value (NZD million, under IFRS)
Fletcher Building	195.6
Telecom Corporation of New Zealand	158.8
Kiwi Income Property Trust	136.0
Auckland International Airport	125.7
Infratil	116.7
Contact Energy	112.2
Commonwealth Bank of Australia	105.0
Meridian Energy	100.0
Fisher & Paykel Healthcare Corporation	99.1
Ryman Healthcare	98.9
Mainfreight	87.1
Westpac Banking Corporation	86.8
Australia and New Zealand Banking Group	80.1
Macquarie Goodman Property Trust	78.2
Sky Network Television	74.5
Precinct Properties New Zealand	65.9
Nestle SA	65.0
Argosy Property	63.5
Z Energy	56.2
Rio Tinto	55.7
SkyCity Entertainment	55.3
Mighty River Power	54.1
Trade Me	53.6
Google	53.0
Nuplex Industries	52.9
Chorus	52.8
Reckitt Benckiser Group	52.4
Templeton Emerging Markets Investment Trust	52.3
Summerset Group Holdings	48.4
Air New Zealand	48.1
LVMH Möet Hennessy Louis Vuitton	47.2
Metlifecare	46.8
National Australia Bank	46.5
Compass Group	46.3
Accenture	45.5
Telstra Corp	42.7
Kathmandu Holdings	42.2
BHP Billiton	41.9
Schlumberger	41.3
Danone	40.5
Macquarie Group	39.6
CSL	39.3
Colgate-Palmolive Co	39.1
Taiwan Semiconductor Manufacturing Co	38.1
Visa	37.9
Procter & Gamble	37.7
Danaher Corp	37.2
Pernod Ricard	37.1
DNZ Property Fund	36.9
United Technologies Corp	36.2

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 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 principles of good corporate governance and with the ethical investment policy.

UN Principles for Responsible Investment

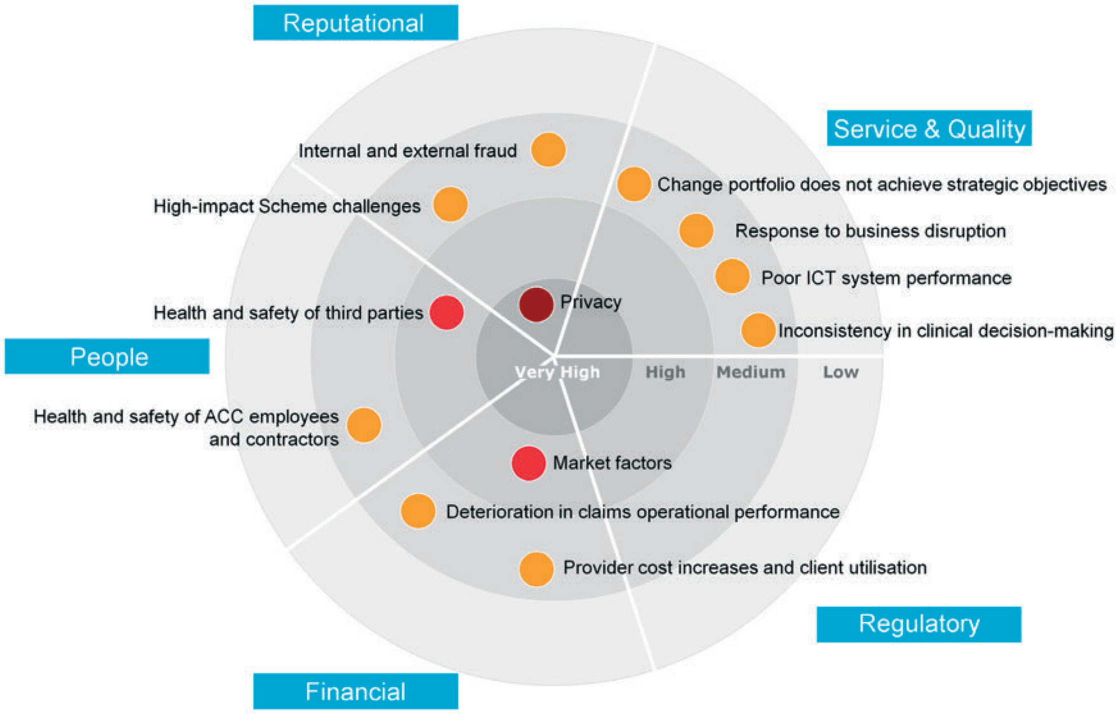
ACC became a signatory to the UN PRI in March 2008. These principles provide investors with a framework to incorporate environmental, social and governance issues into their investment decision-making and ownership practices. As a signatory we are committed to adopting and implementing the principles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

Our key risks are described below, along with our strategies for managing high and very high risks.



Risk	Rating	Comments and risk management strategies
Privacy Inappropriate management of personal information	Very High	Targeted initiatives aimed at further reductions in privacy breaches, through: • Service model redesign as part of the transformation programme ('Privacy by design') • Technology design and development aimed at further reducing the risk of privacy breaches.
Health and safety of third parties A third-party harmed while undertaking work activities for ACC	High	• Establishment of a health and safety work programme to deliver a health and safety strategy, work plan and inaugural due diligence report. • Service model redesign as part of the transformation programme ('health and safety by design').
Market factors Net asset position impacted by unfavourable market factors	High	Risk accepted with current controls in place: • Quarterly monitoring of outstanding claims liability • Asset allocation strategy.

PREVENTION. CARE. RECOVERY.

Te Kaporeihana Āwhina Hunga Whara

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