PREVENTION. CARE. RECOVERY.
Te Kaporeihana Āwhina Hunga Whara

Annual Report 2012

Accident Compensation Corporation




ACC at a glance

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

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

ACC's role is to manage the Scheme in a way that ensures the Scheme continues to deliver high quality services to clients and is financially sustainable for future generations.

ACC at a glance

ACC works to prevent injury, treat it when it occurs, and rehabilitate people back to productive life as soon as is practicable. The organisation is governed by a Board appointed by the Minister for ACC.

All taxpayers, employers, self-employed people and motor vehicle owners contribute to the funding of the Scheme by paying levies. The Government also funds part of the Scheme for people who are not in the paid workforce. Cover is managed under five accounts.

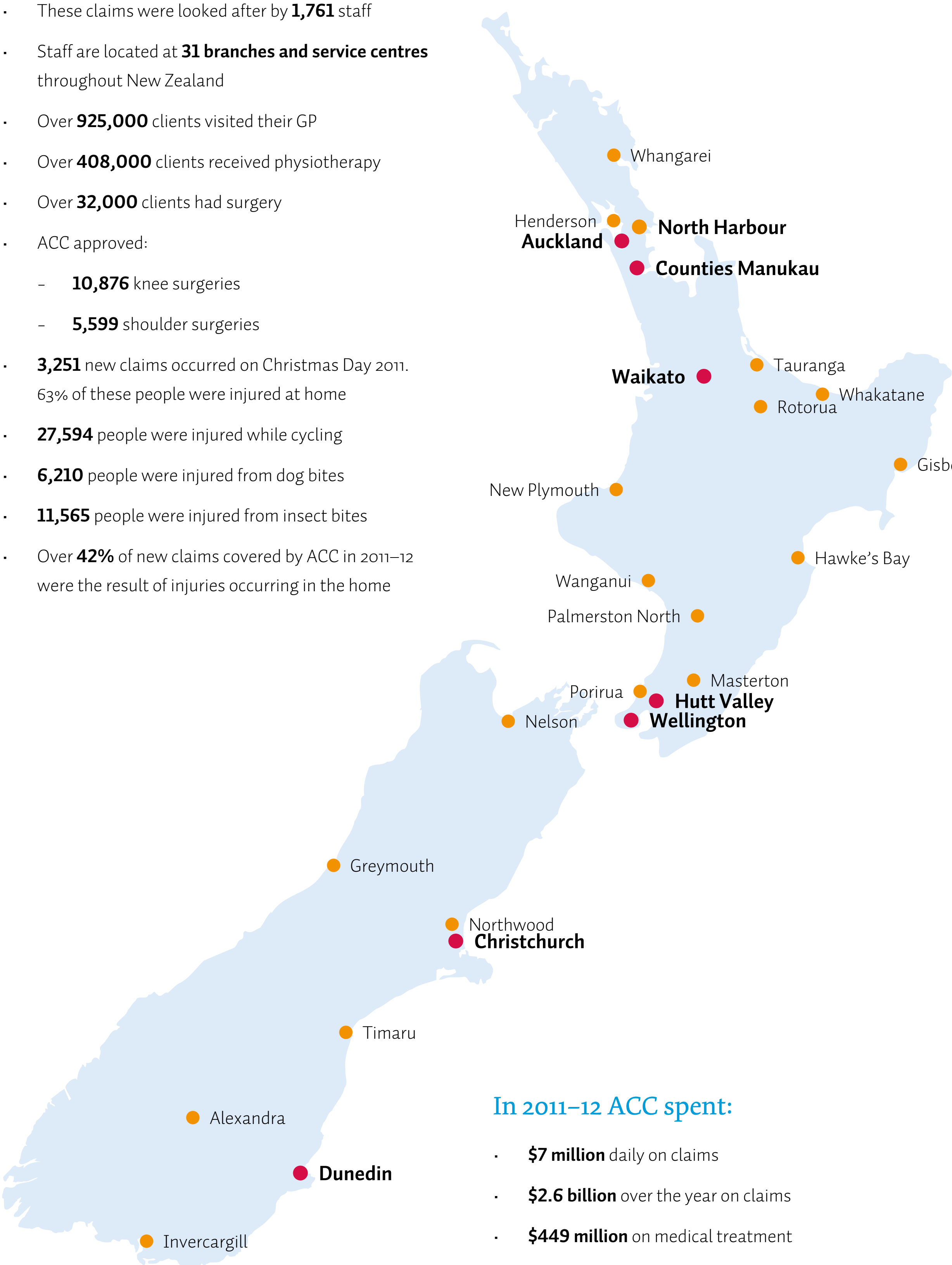
Note: The net assets shown for each account are the net funds available to meet the outstanding claims liability for that account.[1]

Work Account This covers all work-related injuries. It is funded from levies paid by employers and self-employed people. Net assets: $5,978 million Outstanding claims liability: $5,949 million	**Motor Vehicle Account** This covers all personal injuries involving motor vehicles on public roads. It is funded from a petrol levy and a levy collected with the motor vehicle licensing fee. Net assets: $5,529 million Outstanding claims liability: $8,147 million
Earners' Account This covers non-work injuries to earners (including at home, and during sport and recreation). It is funded from earners' levies (paid through PAYE), plus self-employed levies based on earnings. Net assets: $5,681 million Outstanding claims liability: $5,342 million	**Non-Earners' Account** This covers injuries to people not in the paid workforce, including students, beneficiaries, older people and children. It is funded by Government. Net assets: $2,244 million Outstanding claims liability: $5,613 million
Treatment Injury Account This covers injuries arising from treatment. It is funded from the Earners' and Non-Earners' Accounts. Net assets: $1,779 million Outstanding claims liability: $3,345 million	**ACC total:** Net assets before outstanding claims liability: $21,214 million[1] Outstanding claims liability: $28,396 million

1 *The total of net assets before outstanding claims liability includes the revaluation reserves of $3 million.*

In 2011–12:

- ACC accepted **1.7 million** new claims
- These claims were looked after by **1,761** staff
- Staff are located at **31 branches and service centres** throughout New Zealand
- Over **925,000** clients visited their GP
- Over **408,000** clients received physiotherapy
- Over **32,000** clients had surgery
- ACC approved:
  - **10,876** knee surgeries
  - **5,599** shoulder surgeries
- **3,251** new claims occurred on Christmas Day 2011. 63% of these people were injured at home
- **27,594** people were injured while cycling
- **6,210** people were injured from dog bites
- **11,565** people were injured from insect bites
- Over **42%** of new claims covered by ACC in 2011–12 were the result of injuries occurring in the home



In 2011–12 ACC spent:

- **$7 million** daily on claims
- **$2.6 billion** over the year on claims
- **$449 million** on medical treatment
- **$234 million** on hospital treatment and elective surgery
- **$406 million** on social rehabilitation
- **$759 million** on compensation for people unable to work

Contents

PART ONE

Introduction

From the Minister for ACC

The Accident Compensation Corporation is a unique New Zealand institution providing 24/7, no-fault accident insurance for people at work, at play, and at home. A transparent, fair and sustainable scheme that both minimises the overall incidence of injury and provides effective rehabilitation in line with the spirit of its pioneering objectives plays a vital role in New Zealand's way of life.

Privacy and information security remain the biggest issues facing the Corporation at present. New Zealanders rightfully expect to be able to trust ACC and its integrity, and the events surrounding recent privacy breaches have reduced public confidence in the organisation.

I expect ACC to focus on rebuilding this trust and confidence in the Scheme. My immediate expectation is for ACC to improve its practices and culture in relation to privacy and information security.

I have directed the organisation to intensify its drive towards achieving the delivery of world-class services with a strong emphasis on customers, and on achieving high quality rehabilitation and treatment outcomes for injured people.

The rehabilitation performance results outlined in this report show ACC is successfully getting injured people back to their normal lives as soon as practicable.

ACC's improvement in financial performance has given the organisation the opportunity to refocus its strategic goals. The organisation is now on a much better track financially, and the solvency of the Scheme has improved significantly. Positive investment returns, despite a difficult investment climate, coupled with a focus on effective rehabilitation, allowed the Government to reduce levies for the 2012–13 year.

In February I launched a major injury prevention initiative, Idea Nation. The programme encouraged New Zealanders to generate innovative solutions to reduce the number and severity of falls in the home, offering a $10,000 prize to all category winners. Injuries resulting from falls affect around 100,000 working age people every year and cost our economy an estimated $1.8 billion annually.

This was a great way to involve Kiwis in the important work that ACC does and it was encouraging to see the number of New Zealanders who took up the challenge to submit ideas to benefit our nation.

The winners have now been chosen and I look forward to seeing their ideas put into practice.

Looking ahead, the ACC Board must turn its focus to its broader responsibilities in relation to administration of the ACC Scheme. These include preventing injuries, meeting the highest standards of service, ensuring entitlements are delivered fairly and transparently to all New Zealanders, and demonstrating best practice in all areas of ACC's operations.

As I visit ACC offices around New Zealand, I am continually impressed with the work being done on the front line. It's encouraging to meet staff who are committed to delivering the best possible service to claimants and getting them back to normal life sooner. It is imperative that ACC's focus remain on improving service, but also on strengthening public trust and confidence in the Scheme so we can rebuild ACC into an organisation all Kiwis are proud of.

Judith Collins.

Hon Judith Collins
Minister for ACC

From the Board Chair

Our challenges and opportunities

Events of the last year have presented ACC with both challenges and opportunities. The substantial privacy breach identified in March caused the Board to reflect on opportunities associated with ACC's clear sense of purpose: to help individuals, communities and businesses to return to independence after accidents.

On behalf of the Corporation I wish to reiterate our sincere apology to those clients who have had their privacy breached.

Following the March issue the Board instigated an immediate directive to the organisation to undertake actions to better manage privacy in the short term. Alongside this directive, the Office of the Privacy Commissioner and the Board jointly ordered the review of ACC's privacy systems and processes. The independent review covered three areas: (i) the much publicised breach dating back to August 2011; (ii) the privacy process and policies at ACC and how we implement those policies in our day-to-day work; and (iii) how we store and manage information at ACC.

The final report from the review was published on 23 August 2012. The report includes a number of recommendations highlighting key areas for improvement. The recommendations, which the Corporation has accepted in full, inform a substantial body of work to transform how privacy and information security are managed at ACC.

ACC must show its stakeholders that change is occurring, that we are responding quickly and that we can demonstrate that people's personal information is being treated with the care it deserves. Going forward, this will be a key priority for the Board and every effort will be made to instil a culture of zero acceptance of privacy breaches. This culture will be firmly based on respect for our clients and their personal information. The Board understands that the trust and confidence of New Zealanders must be earned and maintained and is committed to achieving this.

ACC has continued its recent successes in improving both its operating performance and its progress towards solvency. Our investments continue to be managed exceptionally well, with the total funds under management reaching $20 billion, up from $16.6 billion last year. Good returns are our major buffer against a decline in long-term interest rates and levy volatility. This year the fall in long-term interest rates was the dominant factor in increasing our outstanding claims liability by $3.9 billion.

Notwithstanding the impact of external economic factors on our financial result for the year, the efforts and actions of ACC's staff in their day-to-day interactions with our clients and key partners have resulted in the delivery of significantly improved rehabilitation outcomes. The delivery of these outcomes has maintained our total cost of claims at $2.6 billion.

To achieve this we have stepped up programmes to support workers to stay at work or return to work as quickly and safely as possible after injury. This work was also reflected in our durable return-to-work result, which was recorded at 80% compared with our Australian counterparts, who recorded a result of 75%. A great deal of effort has gone into ensuring that services are coordinated, efficient and effective in supporting improved outcomes for our clients.

Despite the considerable work done this year, the challenges over the past six months underscore the reality that there is still more to be done. We have challenged the organisation to manage the cost of running the Scheme as efficiently as possible, without any compromise on client outcomes or long-term financial sustainability. The Board is committed to ensuring ACC achieves the balance of delivering optimum outcomes for injured people with prudent and sustainable management of the Scheme.

Our focus

The pace of change at ACC over the last three years has been considerable. The pace will not slacken as we continue to implement the Government's directives. Over the coming year, we will work towards embedding the recommendations from the Privacy Review as well as other strategic and operational changes within ACC. This will require a client-centred organisation focused on delivering quality services to all customers.

Achieving the highest quality treatment and rehabilitation outcomes depends largely on the partnerships we form with clients and their families, with providers and caregivers, with other agencies and with employers. A number of work programmes are currently being put in place to help foster and strengthen these key relationships. We must remain true to the underlying principles of the Scheme and provide cover and entitlements fairly and in line with our legislation.

I would like to thank my fellow Board members for their contributions over the last 12 months and to acknowledge those Board members who have concluded their service with ACC: John Judge, the outgoing Chair; John McCliskie, the outgoing Deputy Chair; Rob Campbell, the outgoing Investment Committee Chair; and Murray Hilder.

The Chief Executive, Ralph Stewart, has only been in the role for a short period. While the public record of his time with the organisation will be dominated by the privacy breach issue he inherited, the fact is that he has done a great deal to set a new direction for the organisation. This will manifest itself in the realisation of greater trust and confidence in the organisation beyond the completion of his time in the role.

Throughout the organisation, staff have worked with energy, commitment and dedication to provide high quality rehabilitation services to help individuals, communities and businesses return to independence after accidents. This has often been in the face of public concern over the Corporation's handling of client information. It is now up to the Board and management to set the culture and provide the tools and systems to ensure the proper management of clients' information. As we put these elements in place, I know our staff will respond to provide the quality of service New Zealanders expect.

A lot of hard work goes into operating an organisation the size of ACC and I appreciate the additional effort that will be required to make the changes necessary to restore the public's trust and confidence in ACC and the Scheme. We will continue to work alongside all New Zealanders, with an unremitting focus on injury prevention, and to ensure ACC provides quality treatment, care and rehabilitation.

Paula Rebstock
ACC Chair

From the Chief Executive

For the most part, the 2011–12 year has been one focused on maintaining the progress made in recent years to improve client rehabilitation and financial performance.

Operations

ACC accepted over 1.7 million new claims during the year. Total claims payments for the year were over $2.6 billion or just over $7 million per day. The largest costs were for weekly compensation, medical treatment and social rehabilitation (home help, child care, wheelchairs, etc).

Notwithstanding an increase in Scheme liabilities of $3.9 billion, mostly generated by lower interest rates, ACC remains well on track towards its legislated target of Scheme solvency by 2019.

Levies have been reduced for the 2012–13 year, with the opportunity to reduce them further in 2013–14.

Privacy

March 2012 saw the media announcement which led to the identification of a serious privacy breach. This was a defining moment for ACC resulting in the commissioning of three independent reports.

Two of these reports have now been completed, the first: an investigation by the Office of the Auditor-General into aspects of ACC's Board level governance and the second: an independent review commissioned by the ACC Board and the Office of the Privacy Commissioner.

ACC will implement the recommendations of both reports in full and has commenced the process of evaluating, prioritising and resourcing to complete the implementation as soon as possible.

Implementing the recommendations represents a major change programme for ACC which will impact how information is received, accessed, stored and reported on. The programme will require business process re-engineering across ACC and the implementation of new systems and process to support the treatment of personal information as an individual asset.

ACC will report progress regularly via its website and directly to the Board and Office of the Privacy Commissioner.

Trust and confidence

The privacy failure and subsequent events attracted substantial media attention which has negatively impacted on the public's view of ACC. Between June 2011 and June 2012 ACC's performance in the quarterly Trust and Confidence Survey compiled by Research New Zealand fell from 58% to 49%.

In March 2012 the Board accepted management's three-year plan to support ACC's strategic ambition of securing the right balance between positive outcomes for clients and the need for fair and stable levies – a key component of trust and confidence in ACC.

Our three-year plan is focused on five key objectives:

1. Delivering quality results for injured New Zealanders
2. Providing better support and service for levy payers
3. Improving health or treatment outcomes for injured New Zealanders
4. Building operating capability to ensure ACC delivers world-class performance
5. Developing the long-term strategy to support the continued development of ACC.

Progress has been good, with a range of new initiatives that will come into service during 2012 and in early 2013. These include:

- increased support for seriously injured people, with a focus on serious brain and spinal cord injury
- improved services to levy payers through new invoicing and consolidated claims management for employers
- the development of a new fleet safety discount programme
- a certification and referrals programme to support doctors and medical practitioners
- new service processes to support improved rehabilitation and claims processing time.

ACC's focus must remain firmly on delivering initiatives and interventions that support the independent report recommendations and contribute to improving the public's trust and confidence in ACC.

People

I would like to take this opportunity to thank the Board Chair and Board members both past and present for their tremendous support and guidance over the last year.

Equally, the attention ACC has received as a result of the privacy breach and subsequent events has weighed heavily on the management team and staff, all of whom have responded with unwavering attention to their duty and purpose – supporting injured New Zealanders.

Ralph Stewart
Chief Executive

PART TWO

Strategic direction

ACC is the Crown entity that manages New Zealand's universal, no-fault accident insurance scheme. Its core functions are to:

- provide rehabilitation and compensation to the injured through managing claims and purchasing services
- reduce the incidence and severity of injuries through injury prevention and by providing levy payers with a range of insurance products that encourage them to manage their injury risks more effectively.

ACC's stakeholders include both injured clients and levy payers, and delivering effective, efficient and sustainable treatment and rehabilitation outcomes remains the organisation's core role.

In the last year ACC has continued its positive rehabilitation performance and achieved better and earlier outcomes for clients. This means that clients are getting back to work, independence and everyday life sooner.

ACC has also continued to perform well financially. This has been largely due to a continuation of the trends of the last three years, including stabilising total claims numbers (particularly decreases in the number of claims receiving weekly compensation), improved rehabilitation performance, tight cost management and outstanding investment performance. However, overall reported financial performance has been impacted by a significant decline in discount rates which has seen ACC's outstanding claims liability increase by $3.9 billion.

Despite the financial result, ACC expects to be able to decrease levy rates for both the Work and Earners' Accounts in the coming year while still maintaining the path to solvency in line with the 2019 legislated targets.

ACC's strategic direction is set to achieve a balance between outcomes for clients and the need for fair and stable levies.

The strategic direction, which is regularly updated, is set out in these three outcomes which describe how the Scheme benefits New Zealand.

- **Outcome 1**: Deliver levy stability by achieving long-term financial sustainability
- **Outcome 2**: Rehabilitate injured people in New Zealand more effectively
- **Outcome 3**: Reduce the incidence and severity of injury where it is cost effective to do so.

These outcomes are achieved through the delivery of the following outputs:

- **Output 1**: Levy collection and setting
- **Output 2**: Investment management
- **Output 3**: Claims management
- **Output 4**: Injury prevention.

In February 2012 ACC introduced a new change programme structure to execute the delivery of these outcomes and outputs. The new structure comprises five programmes of delivery (PoD), which are a means of organising change-related activity. The five PoDs are organised into the following key work areas:

1. Quality results for the injured
2. Better support and service for levy payers
3. Improving health sector outcomes
4. World-class operating performance
5. Enterprise strategy development.

Each PoD is governed by a board with a member of the Executive team as its Chair with defined measures to track performance. Within each PoD there is a range of projects and initiatives designed to deliver targeted outcomes that will enable ACC to reach its strategic goals. The total capital and programme spend budget is also prioritised and managed through the PoDs.

Underpinning the PoDs are three important themes that are consistent with the priorities found in ACC's *Service and Purchase Agreement 2012–2015* and *Statement of Intent 2012–2015*.[2] These themes relate to improving public trust and confidence in ACC and the Scheme, improving the management and security of private information and increasing customer centricity.

The 'Statement of Service Performance' in Part Six of this document provides detail about ACC's performance and the standards used to assess operational success. This gives some objective criteria to judge how well ACC is delivering its outputs and whether its outcomes are being met.

2 *These documents can be found online at www.acc.co.nz.*

PART THREE

Key issues

Privacy and information security

A substantial and material privacy breach inadvertently caused by ACC was identified in March 2012. The Board instigated an immediate response to better manage privacy in the short term while the Office of the Privacy Commissioner investigated the breach.

The immediate response required actions to promptly improve organisational understanding and awareness of the potential for privacy breaches. These actions included: the retraining of and an increased emphasis on the roles of privacy champions in business groups to resolve data-related issues and ensure that sensitive information is adequately protected; requiring all staff to complete online privacy training modules; and strengthening privacy reporting, monitoring and root cause analysis.

The Chief Executive has established a Privacy Steering Committee which will be overseeing and implementing a range of initiatives intended to raise the profile of privacy awareness within ACC and improve the overall performance of ACC when managing personal information.

The establishment of a Privacy Team as a centre of excellence within the organisation was approved as well as a number of small IT changes to help improve the security of ACC's email systems and processes.

More significant tactical decisions were also made, including the centralisation of the management of requests for copies of personal information. This will ensure better quality control over information releases and directly impacts on the area where there is the highest risk of breaching individual clients' privacy.

Alongside these steps, ACC has developed key performance measures that will demonstrate the changes and improvements to the organisation's information security and management. These measures are outlined in ACC's *Service and Purchase Agreement 2012–2015*, which is available online at www.acc.co.nz.

The Office of the Privacy Commissioner, in conjunction with the Board, also commissioned an independent inquiry to investigate the breach and deliver a comprehensive review of ACC's privacy policies and procedures. KPMG and privacy expert Malcolm Crompton, former Australian Federal Privacy Commissioner, were appointed to conduct the inquiry.

The final report was published on 23 August 2012. The report concluded that the breach was human error and identified systematic issues within ACC's culture, systems and policies. The recommendations contained in the report are comprehensive and highlight a number of areas for improvement. These include the need to:

- put in place clear policies that create a positive privacy mindset as part of rebuilding customer trust and establishing a 'firm but also seen as fair' image in the minds of the public
- strengthen Board governance of personal information management
- strengthen privacy leadership and strategy
- enhance ACC's privacy programme
- strengthen the organisational culture

- strengthen privacy accountability
- review and update business processes and systems
- provide additional resources to clear backlogs on privacy-related processes.

The recommendations inform a substantial body of work to transform how privacy and information security are managed. ACC has put in place a structure to lead this work, and will engage external specialist advice to help plan and prioritise the work ahead. ACC will be implementing all of the recommendations outlined in the report. The full report can be found online at www.acc.co.nz.

ACC will work closely with all key stakeholders and report publicly on its progress towards implementation of the recommendations and any further actions taken to improve how personal information is managed throughout the year.

The Office of the Auditor-General (OAG) also conducted an inquiry into how ACC manages risk at the Board level. The inquiry report was also published on 23 August. The Board accepts the conclusions and will incorporate all the OAG recommendations to ensure its practices, training and Governance Manual underpin and support sound governance practice. This includes how the Board and management address any allegations of improper conduct. The Board is clear about its responsibility and has undertaken to implement the measures in the Auditor-General's report. The Auditor-General's report is available online at www.oag.govt.nz.

ACC deals with in-depth confidential and sensitive information for a large number of people and entities, including clients, customers, suppliers and employers. The type of information that ACC holds, such as health and financial, is the most private kind of information. It is imperative that a 'zero acceptance of privacy breaches' is a foundation element of ACC's culture and privacy is a paramount consideration.

Over the coming months, ACC will focus on rebuilding public trust and confidence in the organisation's ability to manage sensitive and private information. By implementing the recommendations from the independent reviews, ACC can show its customers that it has respect for their private information and that appropriate information management is of the highest priority to ACC and the Board.

PART FOUR

Risks

An Enterprise Risk Management framework, which was developed in 2010–11, is being embedded in the organisation. This framework serves to capture all significant risks to the organisation and assess the likelihood of a risk occurring and the consequences. It incorporates three overarching components: the management of risks in each area embedded within the relevant business groups, the coordination of risk reporting and key initiatives by a dedicated risk management office, and the independent assessment of the effectiveness of risk mitigation and management by the assurance services team. Mitigation plans are developed for all risks that are considered material.

Risks to organisational strategy and objectives may arise in existing operations or be attributed to the external environment, such as the impacts of economic, technological and market factors. The review of significant risks to objectives involves the consideration of reputational, financial and non-financial factors across ACC in order to form an overview of potential impacts.

The effectiveness of ACC's internal control system is evaluated and reviewed by the Chief Executive and the Board Audit and Risk Committee, which receives reports from ACC's independent assurance services team. Meetings are held as required between ACC, external auditors and the Office of the Controller and Auditor-General.

The key risks currently facing ACC, including those identified in the *Statement of Intent 2011–2014*, and what is being done to mitigate them are described below.

Risk	Rating	Mitigation
Privacy and information security:[3] Inappropriate use of data, causing issues with respect to data integrity, quality or security	High	The ACC Board has commissioned an independent review of ACC's privacy and information security policies and practices in conjunction with the Office of the Privacy Commissioner. The review provided a number of recommendations for steps necessary to strengthen ACC's policies and practices. It is of the highest priority for ACC to ensure that the implementation of the review outcomes enables its customers to have confidence in the respect that ACC has for their private information in line with the Board's expectation of zero acceptance of privacy breaches. The Board and ACC will implement all of the recommendations of the review. Public reporting of the progress towards implementation of the recommendations will occur during the year.

3 *Further information on this issue is set out on page 10.*

Risk	Rating	Mitigation
Risk that long-term investment performance declines and ACC has to increase its levy rates significantly to achieve the same investment income	High	ACC invests in a global market and returns are necessarily tied to the market as a whole. However, ACC has outperformed relative market benchmarks consistently in the past 17 years. ACC's investment policy is designed to reduce the risk of having to raise levy rates suddenly. It is underpinned by the ongoing requirement to sustain a rate of return that is significantly better than inflation. For example, ACC holds some long-term assets that tend to appreciate in value when interest rates decline. This reduces the risk of a sudden deterioration in the difference between the value of ACC's investments and corresponding claims liability.
Risk that a failure to provide treatment and entitlements under the Scheme in a fair and consistent manner will lead to reduced trust and confidence in both the Scheme and ACC	Medium	ACC is continuing to improve its claims management processes and is piloting the rollout of a new approach to client service, including standardised processes for all claims using expert teams specialising in specific injury types with regular reviews of client needs. This approach will provide consistent best practice for all clients across the country and improve the client experience and client rehabilitation outcomes.
Risk that the organisation and Scheme finances cannot cope with a natural disaster in a major location	Medium	ACC has adequate resources to post-fund the financial impacts of natural catastrophes. ACC is enhancing its business continuity arrangements with the purpose of ensuring they are adequate.
Risk of deterioration of sustainable service quality by health providers due to qualitative or quantitative constraints	Medium	ACC is in the process of developing better relationships with health providers to enhance performance, as well as measuring and monitoring quality outcomes. In parallel, ACC is working to change provider certifying behaviour and client treatment referral processes and pathways.
Risk that ACC's customer interface and its products and service offerings do not keep up with rapidly changing expectations	Medium	ACC continues to improve its client and business customer service. Improvements include: • an end-to-end review of ACC's claims management processes with the purpose of bringing them in line with best practice • the establishment of an employer online portal • enhanced customer contact channels.

Risk	Rating	Mitigation
Risk of significant uncertainty when calculating the adequacy of future levy and appropriation estimates due to volatility in claiming rates	Medium	Improving transparency of financial information, specifically regarding reporting funding adequacy for individual levy years. This information is provided in this report and will also be provided in the *2012 Financial Condition Report*. Developing increased capability to proactively monitor and therefore influence risks. This will be delivered through further deployment of a Dynamic Risk Model (a tool to show funding adequacy) and the ongoing development of ACC's monitoring framework. Continuing to ensure that cover and entitlement decisions are made consistently within the boundaries of the legislation. A quality monitoring tool has been implemented by the Claims Management Group. This is designed to improve consistency in the cover and entitlement decision-making process.
Reduced risk awareness or knowledge of injury prevention in communities that leads to riskier behaviours and higher injury rates	Medium	ACC has a range of initiatives to improve awareness of injury risk in priority areas, such as Idea Nation, Safety Week, local initiatives and an ongoing national falls awareness campaign. The implementation of experience rating in 2011 and the development of risk-sharing levy options aim to incentivise safer behaviours, and should lower injury rates. For those employers who received an Experience Rating loading of greater than 15%, ACC has provided targeted education and support resources to help improve their safety performance. *The New Zealand Injury Prevention Outcomes Report* has been produced to provide an assessment of injury prevention activity across the New Zealand Injury Prevention Strategy (NZIPS) Priority Areas. This assists in raising awareness of injury prevention activity and outcomes across the government sector.
Uncertainty of estimates of the future cost of services (inflationary pressures on services) that could lead to inadequate estimates of future costs, resulting in inadequate funding	Medium	Expenditure for services has been below budget for all categories with the exception of social rehabilitation for serious injury clients, where expenditure was 5% above budget. This was largely due to increased expenditure on capital items, which are needs-related and therefore difficult to forecast accurately. Claims Management Health procurement continues to ensure that any uncertainty and perceived pressures are reduced by an annual review of service pricing and by monitoring service trends across the health provider sectors.

Risk	Rating	Mitigation
Risk that significant variations in rehabilitation performance over time can lead to increased costs of claims and especially flow-on growth in the number of long-term claims (which add substantially to the liability)	Medium	Rehabilitation performance remained positive throughout 2011–12 due to continued improvements to ACC's claims management processes. These include: • ongoing changes to the assessment of new claims (triaging) • improvements to the management of long-term claims (through the Recover Independence Service) • continuing development of the National Serious Injury Service. Alongside this, expenditure for 2011–12 on treatment, rehabilitation and compensation was $208 million better than expected.

PART FIVE

Scheme performance

This section summarises ACC's activity over the last year. It covers:

- improvements to organisational capability and capacity
- claim volumes – what the demand for ACC's services was
- funding policy – how ACC assesses levy rates each year
- revenue (levies, appropriation and investment income) – money generated to pay for services
- expenditure – how the money was spent
- financial sustainability – the improvement in ACC's financial health.

Information about the scale of operations is provided and the changes that have taken place are highlighted. ACC's performance (i.e. how well it performed against targets) is recorded in the 'Statement of Service Performance' in Part Six.

Improvements to organisational capability and capacity

During the year ACC delivered and initiated a number of initiatives that have improved the organisation's capability and capacity to service its clients and customers.

These initiatives aligned the organisation's focus on customer centricity and privacy with its business-as-usual activities.

Client Service Optimisation

In April 2012 ACC initiated the Client Service Optimisation programme. The primary objectives of the Client Service Optimisation initiative are to improve clients' experience, improve rehabilitation and return-to-work outcomes for clients, and improve efficiency across the claims management network.

The Certification Project

The Certification Project, initiated in November 2011, aims to improve health sector and client outcomes and to promote the benefits to injured clients of recovering at work. The project is expected to have a direct impact on current rehabilitation duration measurements and result in an improvement in the proportion of claims lodged that go on to require weekly compensation.

Strategic Health Procurement

ACC is the second largest purchaser of health services in New Zealand and an important part of the country's health infrastructure. Expenditure on health services represents the majority of all ACC's claim expenditure. Improvements in how ACC engages with its suppliers will help the organisation procure the right services at a fair price to ensure quality services and rehabilitation are obtained to improve client outcomes and reduce the impact of serious injuries in particular.

The 2011–12 Referral programme aimed to deliver improvements to clinicians' referrals to other providers, including those to specialists, physiotherapists and diagnostic imaging. This programme also sought improvements to clinicians' certifications of time off work.

The Referrals programme was not progressed initially because the work programme was re-prioritised against other initiatives due to limited funding availability. However, a significant amount of analysis was completed and it is now proposed for the Referrals programme to be initiated in the 2012–13 year.

Services to levy payers

In 2012 ACC delivered changes to the invoices provided to levy payers. These changes aimed to address a number of common complaints from levy payers relating to the design and usability of ACC's invoices. The first batch of redesigned invoices was provided at the time of publication of this document. As such, the impact of the redesign is not yet known.

ACC also began developing a major initiative to improve services to levy payers that aimed to develop a range of flexible, cost-effective and innovative injury insurance services.

Since this initiative was put together, ACC's environment has changed significantly, with the appointment of a new Chief Executive in September 2011 and a new Minister in December 2011. ACC's strategic direction has subsequently been revisited and work programmes across the organisation have been re-prioritised.

The initiative was put on hold while the work programmes were being reviewed and has now been replaced with a new cross-organisational PoD: 'Better support and service for levy payers'. The purpose of this PoD is to deliver initiatives that will make it easier for customers to do business with ACC and improve the performance of ACC's end-to-end insurance operations. These initiatives will help ACC transition from its current levy setter model to a business that provides customers with a policy experience which they understand and value. The initial focus will be on improvements for Work Account customers.

Development of new products in the Work Account has been delayed until enabling legislation is passed.

Claim volumes

New claims are monitored in three main categories:

- new claims registered – total claims accepted as covered by ACC. More than 80% of these are for primary care only (e.g. GPs, emergency room treatment)
- new entitlement claims – claims requiring compensation and/or support for returning to independence (e.g. home support, assistance to return to work)
- new weekly compensation claims – claims paid for income maintenance during time off work.

From 2005 to 2008 ACC experienced a very steep increase in the number of claims. This reflected some population growth but, more significantly, indicated a change in how New Zealanders were using the Scheme. During this period, there were also legislated increases in the scope of the Scheme.

Since 2008, claim volumes have decreased (especially for weekly compensation and entitlement claims), reflecting a range of factors including:

- changes to the legislation under the Accident Compensation Amendment Act 2010
- consistent messaging on the scope of the Scheme
- a decrease in claims due to the economic recession
- increased provider awareness of the limits of ACC coverage.

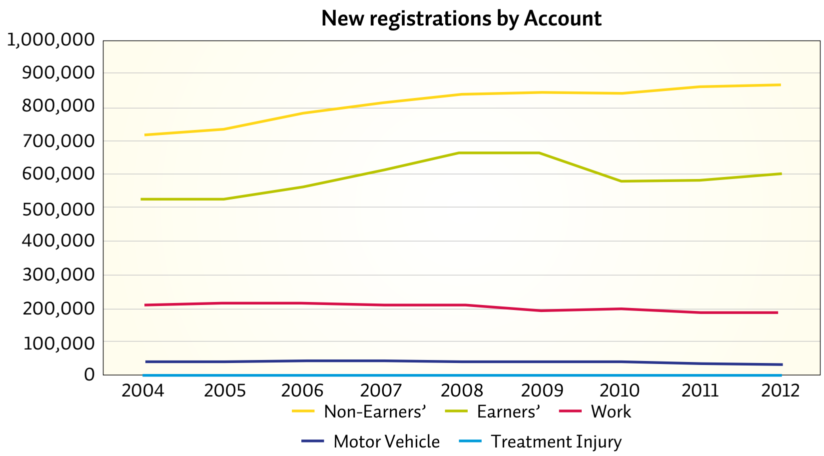
Since 2010, claim volumes have stabilised. The number of new claims registered was largely consistent with the previous year, with a slight increase of 0.6% recorded for the year ending 30 June 2012.

New claims registered

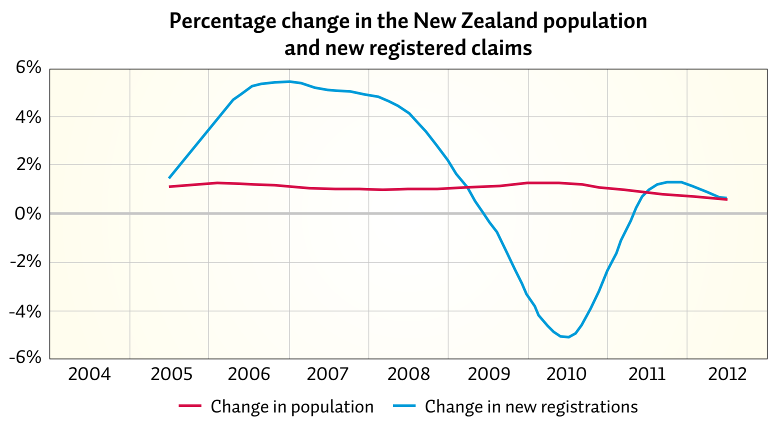
The total number of new registered claims across all Accounts increased by 10,189 or 0.61% in 2011–12.

New claims registered	2011–12 Actual	2010–11 Actual	Change
ACC total	**1,685,296**	**1,675,107**	**0.61%**
Work Account	182,265	189,117	-3.62%
Motor Vehicle Account	32,339	34,484	-6.22%
Earners' Account	597,294	585,858	1.95%
Non-Earners' Account	867,825	860,456	0.86%
Treatment Injury Account	5,573	5,192	7.34%

Total claim volumes have reduced from the peak volumes seen in 2008. New registrations have levelled off with slight increases since 2010. The predominant increase between 2010–11 and 2011–12 comes from the Earners' and Non-Earners' Accounts, while total claim volumes in the Work and Motor Vehicle Accounts have decreased.



The graph below shows the annual percentage change in the New Zealand population and new registered claims.



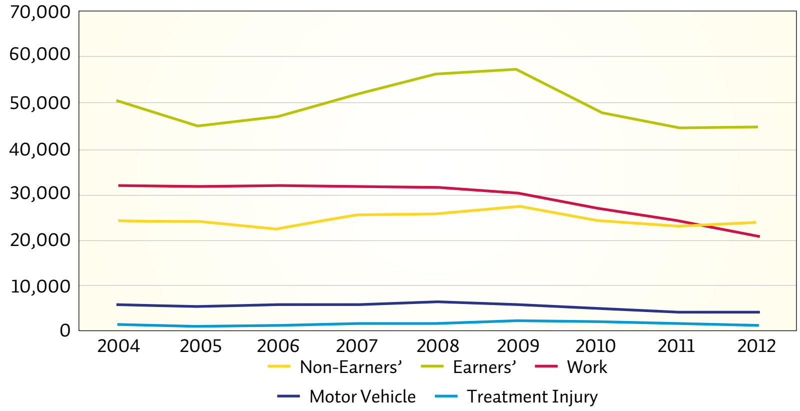
New entitlement claims[4]

The total number of new entitlement claims across all Accounts reduced by 3,007 or 3.08% in 2011–12.

New entitlement claims	2011–12 Actual	2010–11 Actual	Change
ACC total	**94,752**	**97,759**	**-3.08%**
Work Account	21,056	24,092	-12.60%
Motor Vehicle Account	4,249	4,334	-1.96%
Earners' Account	44,829	44,992	-0.36%
Non-Earners' Account	23,191	22,848	-1.50%
Treatment Injury Account	1,427	1,493	-4.42%

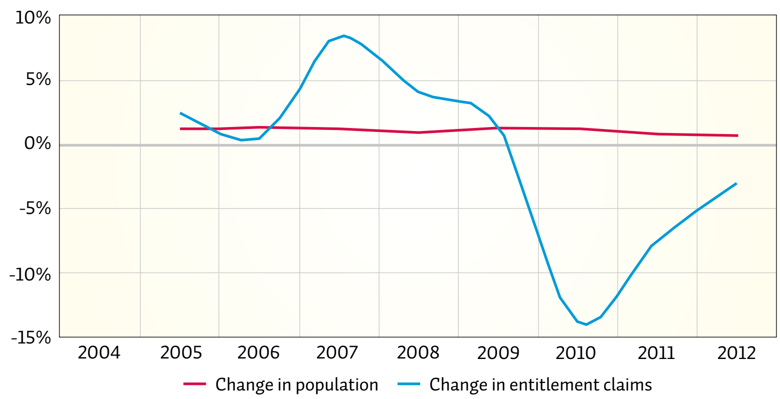
Total new entitlement claim volumes have reduced for the third consecutive year from the peak volumes seen in 2009.

New entitlement claims by Account



The graph below shows the annual percentage change in the New Zealand population and new entitlement claims.

Percentage change in the New Zealand population and new entitlement claims



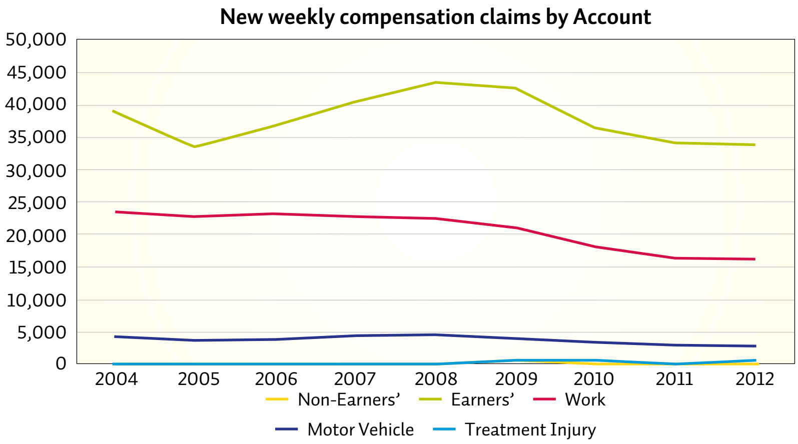
4 *Entitlement claims are those which receive one or more of the entitlements provided under the AC Act, including weekly compensation.*

New weekly compensation claims

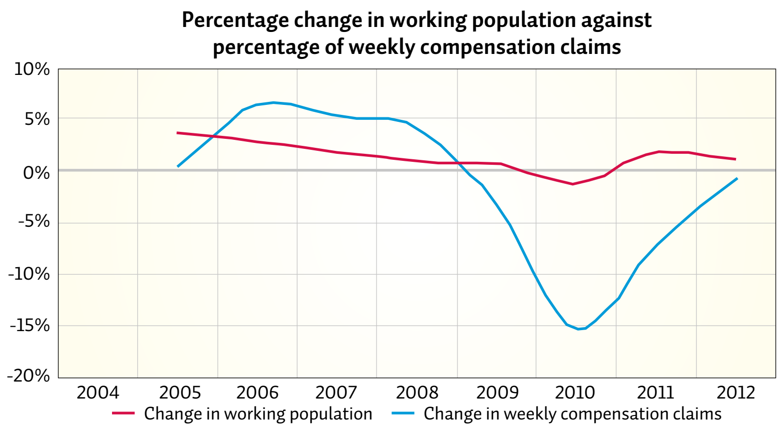
The total number of new weekly compensation claims across all Accounts reduced by 291 claims or 0.54% in 2011–12.

New weekly compensation claims	2011–12 Actual	2010–11 Actual	Change
ACC total	**53,566**	**53,857**	**-0.54%**
Work Account	16,295	16,627	-2.00%
Motor Vehicle Account	2,901	2,963	-2.09%
Earners' Account	33,773	33,681	0.27%
Non-Earners' Account	50	77	-35.06%
Treatment Injury Account	547	509	7.47%

The number of weekly compensation claims has a significant impact on the organisation's expenditure and liability. Total new weekly compensation claim volumes have fallen substantially over the last three years. The number of claims in 2012 continued to decrease but at a much lesser rate.



The graph below shows the annual percentage change in New Zealand's working population and weekly compensation claims.



Scheme funding and levy setting

Scheme funding

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

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

Account	Type of cover	Source of funding	2011–12 Combined average levy (excl. GST)
Levied Accounts – revenue is collected through ACC levies			
Work	Work-related injuries	Employers Self-employed	$1.47 per $100 liable earnings
Earners'	Non-work-related injuries to earners, e.g. home, sport	Employees Self-employed	$1.78 per $100 liable earnings
Motor Vehicle	Injuries involving motor vehicles on public roads	Motorists	$334.52 (average levy for petrol driven car including petrol levy and licensing fee)
Non-levied Account – revenue is collected through Government appropriation			
Non-Earners'	Injuries to non-earners, e.g. students, elderly	Government appropriation	N/A
Mixed-funded Account – revenue is collected through ACC levies and Government appropriation			
Treatment Injury	Injuries caused by registered health providers	Earners' and Non-Earners' Accounts	N/A

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

The AC Act requires that those accounts funded by levy collection, the Work, Motor Vehicle and Earners' Accounts, be fully funded by 2019.

The Non-Earners' Account is funded annually by a Government appropriation which 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. As such, the Non-Earners' Account and the portion of the Treatment Injury Account funded by the Non-Earners' do not have a full funding target.

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, claims volumes and resulting costs, inflation, and investment performance are forecast and levies are set with the aim of meeting the legislated solvency level for the three levied Accounts.

The previous funding policy was expressed in terms of a funding ratio[5] point target of 105%.

The Board revisited ACC's funding policy for the 2012–13 levy year and introduced a number of changes. These are summarised below:

- each Account has a funding band rather than a point target
- the bands are based on the asset and liability values found in ACC's financial statements and the mid-point within each band represents the preferred level of funding
- no additional risk margins (above that included in the assessment of claim liability) are included within the target bands.

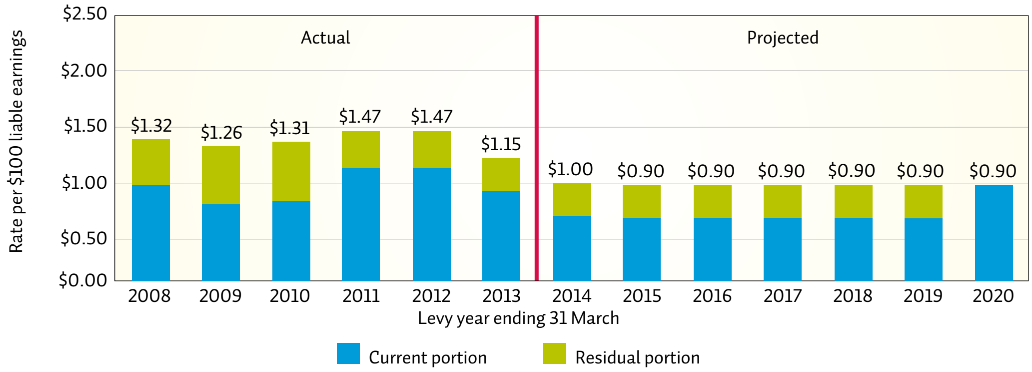
The target funding bands shown in the table below have been applied.

Over the 2011–12 year, the solvency of the three levied Accounts increased with both the Work and Earners' Accounts now over 100%. However, the solvency levels of these Accounts remain below the mid-points set in the current Funding Policy.

	Target funding band			
Account	Selected mid-point	Lower boundary	Upper boundary	2011–12 Solvency ratios
Work	117.5%	100%	140%	100.4%
Motor Vehicle	116.0%	100%	140%	67.8%
Earners'	115.5%	100%	135%	106.3%

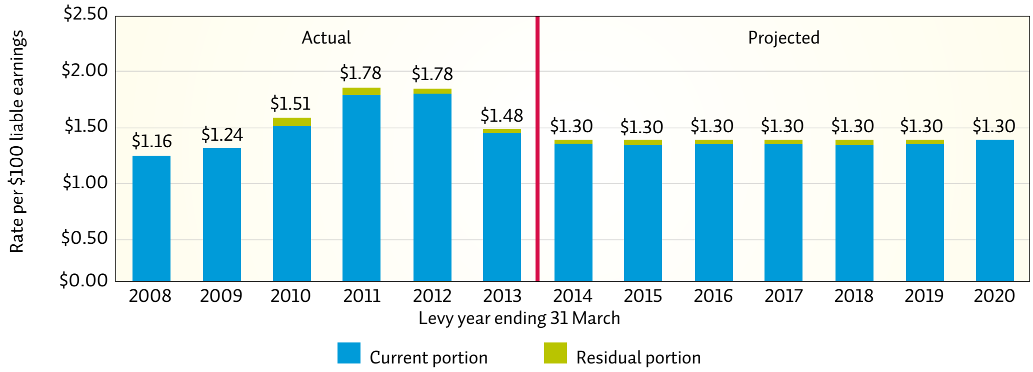
As ACC progresses towards full funding, and no longer collects a residual levy to fund past claims, future levy rates are projected to decrease and stabilise. Actual levy rates to 2013 and projected levy rates to 2020 for Work, Earners' and Motor Vehicle Accounts are shown in the graphs below.

Average levy rate for the Work Account

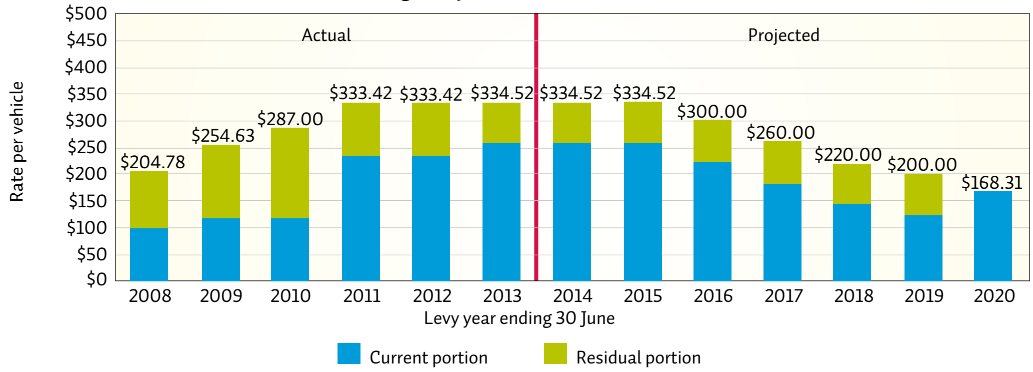


5 *The funding ratio is defined as the ratio of liabilities to assets as set out in ACC's financial statements in accordance with NZ IFRS. A percentage below 100% means the Account is under-funded.*

Total levy rate for the Earners' Account



Average levy rate for the Motor Vehicle Account



Levy rates 2012–13

The 2012–13 levies for workers, employers and motorists were announced by the Minister for ACC in February 2012. The average levies (excluding GST) are set out below.

	2012–13	
Account	**Cabinet decision**	**ACC recommendation**
Work Account	$1.15 per $100 of liable earnings	$1.15 per $100 of liable earnings
Earners' Account	$1.48 per $100 of liable earnings	$1.48 per $100 of liable earnings
Motor Vehicle Account (via annual vehicle licensing fee and petrol levy)	$334.52 per motor vehicle	$334.52 per motor vehicle

The Government made a decision to reduce the levy rates for 2012–13 in acknowledgement of the significant improvements in ACC's financial position and rehabilitation rates during the 2010–11 financial year.

Revenue and expenditure

This section reports on the revenue earned and costs incurred compared with the expected revenue and costs reported in the *Statement of Intent 2011–2014*.

The output classes are the actual services provided. The 2011–12 revenue and expenses by activity were as follows.

	Administration		Claims Paid		Revenue	
Output class $M	**Actual**	**Budget**	**Actual**	**Budget**	**Actual**	**Budget**
Output class 1 – Levy setting and collection	93	88	–	–	4,865	5,056
Output class 2 – investment management	54	47	–	–	1,711	1,082
Output class 3 – claims management	315	323	2,603	2,811	–	–
Output class 4 – injury prevention	32	37	–	–	–	–
Total ACC	**494**	**495**	**2,603**	**2,811**	**6,576**	**6,138**
Other activity e.g. subsidiaries	1	3	–	–	2	6
ACC group total	**495**	**498**	**2,603**	**2,811**	**6,578**	**6,144**

Revenue, administration costs and claims costs are discussed in more detail below.

Total revenue

Total revenue includes levy and investment revenue. The latter is discussed in Part Eight of this document. Total revenue for the year is shown below.

Source $M	2011–12 Actual	2011–12 Budget	2010–11 Actual
Net levy revenue			
– Work Account	1,034	1,190	1,034
– Motor Vehicle Account	1,054	1,047	985
– Earners' Account	1,523	1,604	1,529
– Non-Earners' Account	905	939	957
– Treatment Injury Account	349	276	325
Total net levy revenue*	**4,865**	**5,056**	**4,830**
Investment income	1,711	1,082	1,755
Total revenue	**6,576**	**6,138**	**6,585**

**Net levy revenue includes Government appropriations of $1,096 million (2011–12) and $1,188 million (2010–11).*

Net levy revenue

Net levy revenue of $4,865 million was $191.2 million less than budget, reflecting a reduction in levy rates approved for the 2012–13 year after the budget was completed and a reduction in revenue realised from Government appropriations.

Non-Earners' appropriation

The costs of claims in respect of non-earners (other than motor vehicle injury) are funded by appropriation from Government. The appropriation is accounted for within the Non-Earners' and Treatment Injury Accounts.

Appropriation from the Government was under budget by $21 million (1.9%) mainly due to lower claims costs.

The appropriation allocated to the Treatment Injury Account was $191.3 million, $13.2 million more than budget, reflecting increased costs in the Treatment Injury Account.

Breakdown of Non-Earners' appropriation

Details of the appropriation for 2011–12 are:

Output class $000	Actual	Budget	Relevant ACC activity
Claims management and supporting services	78,891	78,891	Administration costs for the Non-Earners' Account – claims management, ACC support activity.
Claims entitlements and services	736,288	736,288	Rehabilitation expenditure (excluding public health acute services) within Non-Earners' Account claim costs.
Public health acute services	259,729	259,729	Non-Earners' Account claim costs being the Account's portion of the ACC/Ministry of Health Service Agreement for public health acute services to ACC clients.
Benefits and other unrequited expenses	13,478	13,478	Compensation expenditure within Non-Earners' Account claim costs, plus the transfer to the Treatment Injury Account to cover the costs of non-earners' claims in that account.
2011–12 appropriation	**1,088,386**	**1,088,386**	
Plus revenue adjustment 2010–11	30,597	28,618	
Less revenue adjustment 2011–12	22,729		
Levy revenue Non-Earners' Account	**1,096,254**	**1,117,004**	

The budgeted adjustment of $28.6 million relates to overfunding of the pay-as-you-go portion estimated for 2010–11. This pay-as-you-go claims payments estimate was subsequently revised down and is now lower than originally estimated at the time the 2011–12 budget was completed.

The revenue adjustment for $30.6 million relates to overfunding of the pay-as-you-go portion of the Non-Earners' Account due to lower than expected claim payments during the year to 30 June 2011.

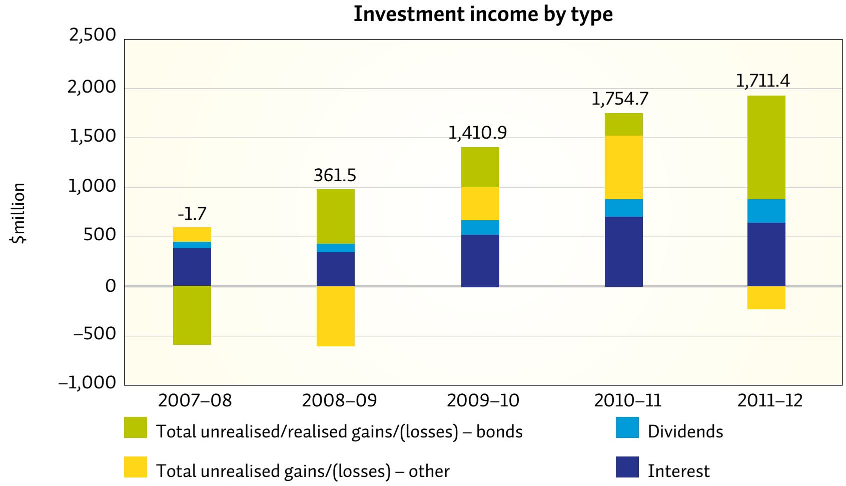
The adjustment of $22.7 million relates to overfunding of the pay-as-you-go portion for the year to 30 June 2012 and is due to lower than expected claim payments.

Investment income

Alongside levies and Government appropriation, the third principal source of Scheme funding is investment earnings. ACC is one of the largest investors in New Zealand, with over $20 billion in funds under management.

Investment income of $1,711.4 million in 2011–12 reflected the recovery in investment markets and exceeded budget of $1,081.6 million, by $629.8 million.

The graph below compares ACC's investment income by income type for the last five years.

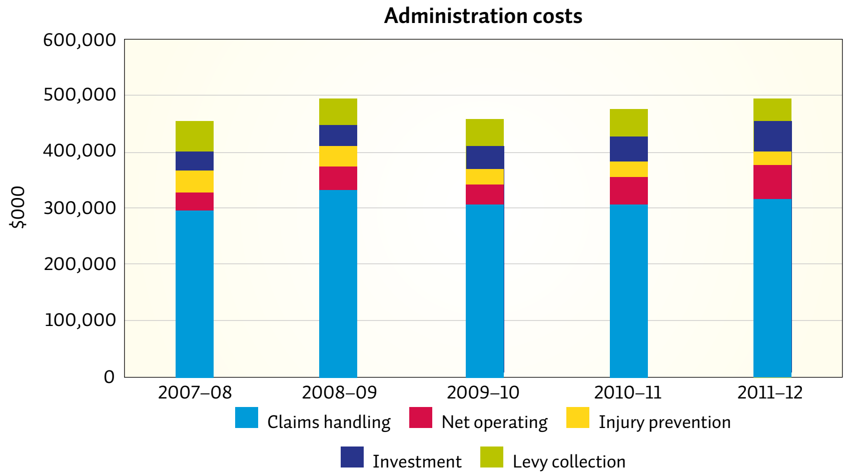


A detailed commentary on investment performance is provided in Part Eight.

Administration costs

ACC's administration costs for 2011–12 were $494 million against a budget of $495 million. This is 4% higher than in 2010–11 and is mostly due to:

- increased investment-related costs due to the increasing value of investment assets in ACC's portfolio
- costs associated with transferring ACC's information technology (IT) support contract from Gen-i to Datacom
- moving the Wellington Branch office to Shamrock House, Molesworth Street due to the seismic report on the Wakefield Street site.

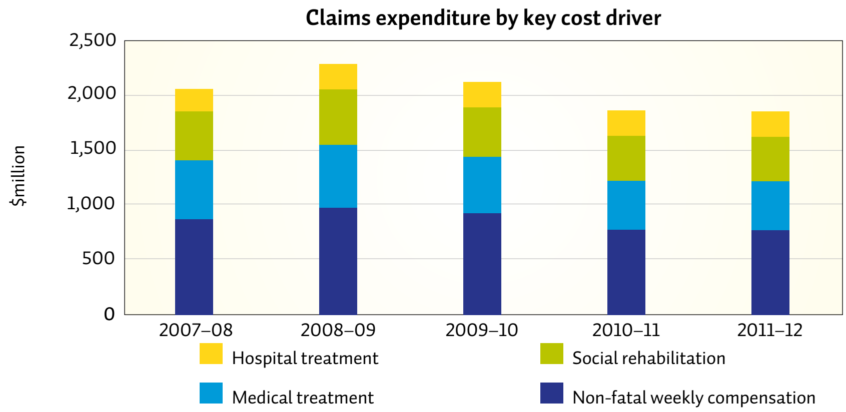


A detailed breakdown of administration costs is provided in the financial statements.

Claims expenditure

In 2011–12 total claims expenditure was $208 million under budget at $2,603 million, reflecting reduced claim volumes and improved rehabilitation performance.

As shown in the graph below, total claims expenditure has been decreasing since 2009–10. While the 2011–12 result represents a 0.6% increase from the previous year, it shows expenditure is levelling out in line with claim rates.



Treatment costs (medical and hospital treatment) make up 46% of total claims expenditure in 2011–12 and are 1.4% higher than in 2010–11.

Rehabilitation costs make up 17% of total claims expenditure in 2011–12 and have fallen 1.4% since 2010–11.

Compensation costs make up 36% of total claims expenditure in 2011–12 and are 0.6% lower than in 2010–11. The continued increase in return-to-work rates and fewer new clients needing ACC support beyond one year are consistent factors resulting in fewer active weekly compensation claims.

Details about the reduction in claim volumes are provided at the start of this section. Improved operational performance is discussed under Outcome 2 in the 'Statement of Service Performance' in Part Six.

Financial sustainability

ACC's financial position is best understood in terms of its outstanding claims liability (OCL), net assets and the resulting solvency:

- the OCL is a present value estimate of the future cost of all of the claims on ACC's books
- solvency indicates whether ACC has sufficient funds to meet these costs.

Progress towards financial sustainability is best shown by Scheme solvency, which is measured as the ratio of net assets to the OCL in each of ACC's Accounts and provides an indication of funding adequacy.

What is the OCL?

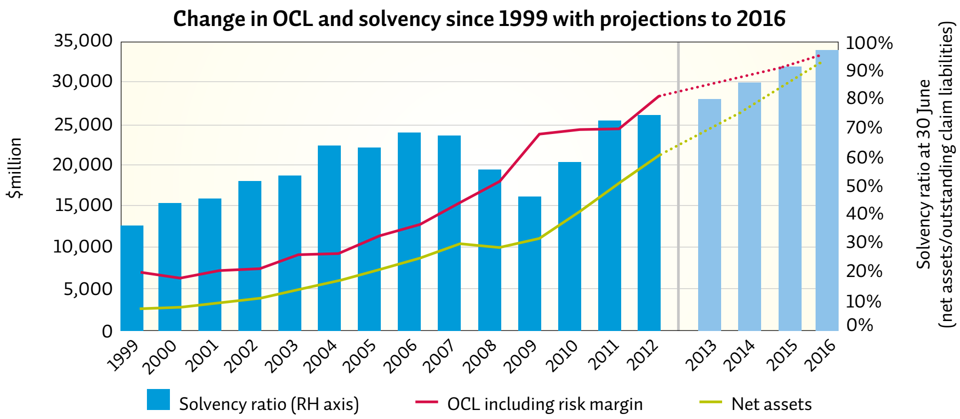
While most people require ACC support for very short periods, for others the seriousness of their injury means they will need help for longer. For example, if an infant suffers a severe birth injury they may require support for the rest of their life. The OCL is the net present value of expected future payments for injuries that have occurred.

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

The assumptions and methodology used to estimate the OCL are set with reference to relevant accounting and actuarial professional standards.

From 1999 until 2007, the OCL increased in line with net assets. Following this, the OCL increased dramatically while net asset levels increased at a much slower rate. In recent years, the focus has been on controlling growth in the OCL. This, along with substantial investment earnings and ongoing collection of residual levies, has resulted in an improved financial position.

The graph below shows the change in financial position since 1999 and the forecast position to 2016. It details the OCL, net assets and the corresponding solvency ratio.



External advice

PricewaterhouseCoopers provides an external estimate of the OCL. ACC reviews and considers this advice when deciding the amount to accrue in the annual financial statements.

The OCL valuation is produced and reported in accordance with the New Zealand equivalent to International Financial Reporting Standards 4 (NZ IFRS 4).

Changes to the OCL and solvency

Key drivers of change in the OCL from 2004 to 2009 were:

- claim volumes rising faster than the underlying population growth
- rehabilitation performance declining, causing claim duration to increase and average claim costs to rise
- a larger than expected increase in the size of the long-term claims pool
- a rise in the forecast costs of managing seriously injured clients[6]
- an increase in the scope of the Scheme owing to legislative change and court decisions
- a one-off change to international financial reporting standards (IFRS) that required ACC to add a risk margin on top of the liability.

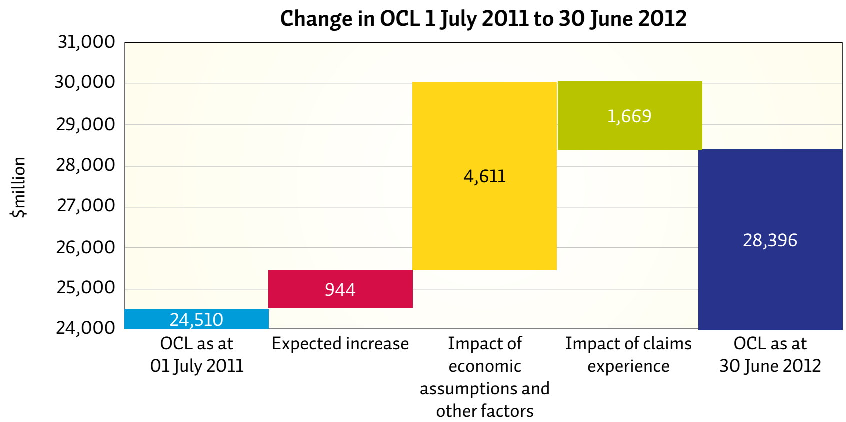
6 *Seriously injured clients are those with an injury sufficiently serious that they are expected to have a lifelong relationship with ACC. These are typically spinal and traumatic brain injuries.*

In 2008, weak investment returns also contributed to a decline in ACC's solvency.

Since 2009, the key drivers of the change in the OCL have been:

- a decrease in claim volumes. This decrease has levelled out in the past year
- an improvement in rehabilitation performance that has reduced the duration of longer-term claims
- a proactive approach to the management of seriously injured clients
- declines in discount rates
- changes to the AC Act.

During the 2011–12 year, the valuation of the OCL increased by $3,886 million. The increase is mainly due to economic factors and assumptions. The graph below shows the net change in the OCL in 2011–12 and the factors contributing to that change.



The expected increase in the OCL for 2011–12 was $944 million. This increase was more than offset by good rehabilitation performance as well as further reductions in payment expenses, resulting in a reduction of $1,669 million in the OCL (excluding external factors).

However, this positive result was impacted by the discount rate movements and other economic factors and assumptions. In the 2011–12 year, these were substantially negative and $4,611 million was added to the OCL mainly due to global economic conditions impacting on New Zealand interest rates.

PART SIX

Statement of service performance

The Statement of Service Performance includes both the outcome and output measures contained in the *Statement of Intent 2011–2014*. The combination of measures tells a complete performance story, detailing what ACC has done (outputs) and the difference this made (outcomes).

This information is complemented by the Scheme overview given in Part Five.

The following table summarises ACC's performance for each outcome, using the measures set out in the *Statement of Intent 2011–2014*. Detailed explanations of ACC's performance against each outcome target are provided on the following pages.

<table>
<tr><th colspan="4">Outcome 1: Delivering levy stability by achieving long-term financial sustainability</th></tr>
<tr><th colspan="2">Measure</th><th>Performance against target</th><th>Comment</th></tr>
<tr><td rowspan="5">Solvency ratios</td><td>Work Account</td><td>Not Achieved</td><td>The funding ratio was below target by 4.6%</td></tr>
<tr><td>Motor Vehicle Account</td><td>Not Achieved</td><td>The funding ratio was below target by 6.8%</td></tr>
<tr><td>Earners' Account</td><td>Achieved</td><td>The funding ratio was above target by 1.3%</td></tr>
<tr><td>Non-Earners' Account</td><td>Not Achieved</td><td>The funding ratio was below target by 6.3%</td></tr>
<tr><td>Treatment Injury Account</td><td>Not Achieved</td><td>The funding ratio was below target by 8.0%</td></tr>
<tr><td rowspan="5">Expenditure against key cost drivers</td><td>Non-fatal weekly compensation</td><td>Achieved</td><td>Expenditure against this cost driver was better than target by 12.4%</td></tr>
<tr><td>Social rehabilitation</td><td>Achieved</td><td>Expenditure against this cost driver was better than target by 1.7%</td></tr>
<tr><td>Medical treatment</td><td>Achieved</td><td>Expenditure against this cost driver was better than target by 7.5%</td></tr>
<tr><td>Hospital treatment</td><td>Achieved</td><td>Expenditure against this cost driver was better than target by 6.2%</td></tr>
<tr><td>Administration</td><td>Achieved</td><td>Expenditure against this cost driver was better than target by 0.1%</td></tr>
<tr><td colspan="2">Serious injury liability</td><td>Achieved</td><td>The liability relating to serious injury was better than target by $258 million</td></tr>
<tr><td colspan="2">Investment returns above benchmark by 0.5%</td><td>Not Achieved</td><td>Investment returns against market benchmark were 0.23% below target</td></tr>
</table>

Outcome 2: Rehabilitate injured people in New Zealand more effectively		
Measure	Performance against target	Comment
Volume of the long-term claims pool	Achieved	The result was better than target by 1,225 claims[7]
70-day weekly compensation days paid	Not Achieved	The rate was 0.7% below target
273-day weekly compensation days paid	Achieved	The rate was above target by 0.7%
Durable return-to-work monitor	Achieved	The result was above target by 5%
Client satisfaction	Achieved	The result met target at 70%

Outcome 3: Reduce the incidence and severity of injury where it is cost effective to do so		
Measure	Performance against target	Comment
Road – Return on investment for the young driver programme	Achieved	The return on investment was above target at 11:1
Public – Return on investment for the Vitamin D programme	Achieved	The return on investment was above target at 7:1
Work – Claim reduction among employers participating in an injury reduction programme in comparison with peer group of employers	Not Achieved	The reduction rate was below target at 1–2%

7 *In 2011–12 the net movement in the long-term claims pool was 1,009 claims.*

Outcome 1: Delivering levy stability by achieving long-term financial sustainability

The long-term financial sustainability of the Scheme is achievable through a number of factors working together, which include effectively managing ACC's liability through better rehabilitation, the associated costs and ACC's operating costs in administering the Scheme.

These financial sustainability measures show the aggregate impact of ACC's performance on its financial sustainability. The measures are important long-term indicators of the cost of the Scheme to society. In particular, they help show whether the current generation of tax and levy payers is adequately funding the cost of their injuries or whether liabilities are being passed on to future generations.

However, financial sustainability measures are not, by themselves, sufficient indicators of performance. ACC's role is to administer the Scheme transparently and to provide fair rehabilitation, treatment and compensation to injured people in line with the AC Act. The financial measures should therefore be read alongside the other measures in the 'Statement of Service Performance'. Together, these measures give an idea both of the quality and impact of services and of the costs of delivering those services to the country.

Solvency ratios

Solvency ratios are a measure of the assets available to each Account as a percentage of that Account's OCL. Each Account has a funding track and associated target which is monitored to show whether ACC is on track to meet its full funding requirements. Because each Account is funded separately, the solvency ratios vary between them. Funds cannot be transferred between Accounts.

The AC Act requires that those accounts funded by levy collection, the Work, Motor Vehicle and Earners' Accounts, be fully funded by 2019. A full explanation of ACC's funding policy to achieve full funding is set out on page 21.

The Non-Earners' Account and the portion of the Treatment Injury Account funded by Government appropriation do not have a full funding target.

The Non-Earners' Account is funded annually by a Government appropriation which fully funds all claims post 1 January 2001. However, this Account will not reach full funding until all pre-2001 claims, which are funded on a pay-as-you-go basis, reach maturity.

The funding of the Treatment Injury Account is split between the Non-Earners' and Earners' Accounts. As such, the solvency ratios for this Account reflect the different positions of these two portions. The solvency position of the Non-Earners' portion is currently at 43.8% and the Earners' portion is at 76.3%.

Levied Accounts

	Solvency ratios: Levied Accounts		
Account	30 June 2012 Actual	30 June 2012 Target	30 June 2011 Actual
Work Account	100.4%	105.0%	94.7%
Motor Vehicle Account	67.8%	74.6%	64.1%
Earners' Account	106.3%	105.0%	98.8%

Appropriation and mixed-funded Accounts

Account		30 June 2012 Actual (split)	Solvency ratios: Appropriations 30 June 2012 Actual (combined)	30 June 2012 Target	30 June 2011 Actual (combined)
Non-Earners' Account[8]	Pre-July 2001 portion	-0.6%	40.0%	46.3%	42.7%
	Post-July 2001 portion	95.8%			
Treatment Injury Account[9]	Earners' pre-1999 portion	104.4%	53.2%	61.2%	54.4%
	Earners' post-1999 portion	100.3%			
	Non-Earners' pre-2001 portion	-5.6%			
	Non-Earners' post-2001 portion	67.8%			

As a result of ACC's strong performance from insurance operations, which includes investment income, solvency across all levied Accounts increased during 2011–12. This resulted in a total Scheme solvency ratio of 74.7% compared with 72.6% in 2010–11. The solvency levels of the Work and Earners' Accounts are now above 100%. However, external economic factors significantly affected solvency, resulting in only the Earners' Account exceeding the target.

Notwithstanding the 2011–12 results, ACC remains well on track to reach its full funding requirements by 2019 for the Work, Earners' and Motor Vehicle Accounts.

Expenditure against key cost drivers

ACC's *Statement of Intent 2011–2014* set a target for expenditure against key cost drivers in 2011–12 to be within budget. Expenditure against all key cost drivers was below budget as shown in the table below.

Key cost driver $000	2011–12 Actual	2011–12 Target	2010–11 Actual
Non-fatal weekly compensation	758,800	866,370	770,334
Social rehabilitation	405,814	412,641	408,828
Medical treatment	448,751	485,363	447,852
Hospital treatment	233,642	249,146	232,717
Administration	494,433	495,000	475,000

The reduction in expenditure reflects improvements made in how effectively ACC is supporting clients through their rehabilitation as well as the reduction in total claim rates. Factors specifically driving the lower than expected spend include:

- continued high level of performance in the return-to-work rates
- fewer clients needing ACC support beyond one year
- a higher than forecast reduction in the number of active weekly compensation claims.

8 *The lower funding ratio in the Non-Earners' Account reflects the Government's current policy of funding claims before 1 July 2001 on a pay-as-you-go basis.*

9 *The lower funding ratio in the Treatment Injury Account reflects the Government's current policy of funding claims before 1 July 2001 on a pay-as-you-go basis.*

Serious injury liability

Each year between 185 and 270 people in New Zealand are catastrophically injured and left with significant disabilities, from which they will never recover and that require lifetime support from ACC. These people will have significant daily needs for care, personal assistance, domestic support and ongoing equipment and medical needs. For those with the most profound injuries, these needs will extend to constant attendant care. The serious injury portfolio is the only claims management area where clients will not exit the Scheme (other than through death) and the number of serious injury claims will continue to increase until the Scheme reaches maturity. For these reasons, the serious injury portfolio is one of the biggest components of ACC's outstanding claims liability and is a key claims management focus area. As at 30 June 2012 there were 5,119 serious injury clients in the portfolio.

30 June 2012 marks the end of the implementation of a three-year strategy to set up the National Serious Injury Service (NSIS) to improve client outcomes, and manage cost and liability growth. This strategy has delivered significant improvements in client outcomes, resulting in a reduction in the lifetime costs of serious injury claims under management. The NSIS is committed to continuous improvement in the management of all serious injury claims and is progressing work on Spinal Cord Injury, Birth Injury and Traumatic Brain Injury strategies.

The June 2012 valuation of the outstanding claims liability reduced the social rehabilitation liability attributable to serious injury clients by $176 million (from the estimated liability as at 30 June 2011). As shown in the table below, the total serious injury liability of $8,051 million was $258 million lower than the target.

	2011–12 Actual	2011–12 Target	2010–11 Actual (new measure)
Serious injury liability The liability associated with serious injury clients	$8,051M	≤ $8,309M (The liability will not increase by more than 1%)	$8,227M

Investment returns above benchmark

Investment performance has a strong influence on the funding ratios that impact on levy rates, since levy rates factor in an assumed rate of return. If investment returns were to be below the assumed rate, the difference would need to be recouped by increasing levy rates.

Investment returns have been consistently higher than market benchmarks for the last 20 years. The investment target for 2011–12 was for returns to be 0.5% above the blended market average benchmark. The investment return exceeded the benchmark by 0.27%, but was 0.23% lower than the target for the year.

	2011–12 Actual	2011–12 Target	2010–11 Actual
Investment management performance relative to benchmarks	0.27% (0.23% below target)	0.5% above blended market average benchmarks	1.32% (0.82% above target)

Key initiative to support Outcome 1

Legislative change and response to the Stocktake into ACC's Accounts

Experience rating was introduced on 1 April 2011. It improves financial incentives for employers to encourage injury prevention in the workplace and help injured employees return to work as safely and quickly as possible.

Under the experience rating framework, employers who have lower than average injury rates, with better than average rehabilitation or return-to-work rates, may receive a discount on their ACC work levy. Those with worse than average claims experience may receive a loading on their levy.

Experience-rated employers contribute 75% of the total levy income for the Work Account and are eligible for either no claims discounts or experience rating programmes.

A key deliverable for the 2011–12 year was the creation of a claims lodgement and clearing house function to enable the identification and attribution of a claim to the correct employer. This was necessary to effectively implement the new experience rating framework for employers and is also a foundation for continuous improvements to the claims clearing and lodgement processes.

The existing Accredited Employer claims clearing process dates from 2001 and relies on email contact with Accredited Employers. While still in the initial stages of planning, changes to the claims clearing process will provide the opportunity for continuous electronic transfer of claims to and from Accredited Employers.

The attribution rate for the year to June 2012 was 87%. However, following the development of newer, more effective processes and search tools ACC lifted its attribution rate to 94% for the last three weeks of the period. This rate is expected to continue next year.

Outcome 2: Rehabilitate injured people in New Zealand more effectively

Outcome 2 aims to improve client outcomes by ensuring that people covered by the Scheme get the quality rehabilitation they need to return to as full a role in society as possible.

ACC seeks to understand the customer experience and to enhance how it works with clients to minimise the impact of injury and help them return to work and participation in their communities as quickly and safely as possible. Achieving this will also actively contribute to Scheme sustainability by ensuring that those covered receive the services to which they are entitled promptly and efficiently.

Client outcome measures include the size of the long-term claims pool, average weekly compensation rates, the attainment of National Serious Injury Service (NSIS) client goals and overall client satisfaction.

Volume of the long-term claims pool

ACC's goal is to improve client outcomes by supporting the safe, timely and appropriate rehabilitation of clients recovering from injury. In the past year, ACC has helped 1,009 of its long-term clients to successfully return to work and/or independence, greatly exceeding expectations.

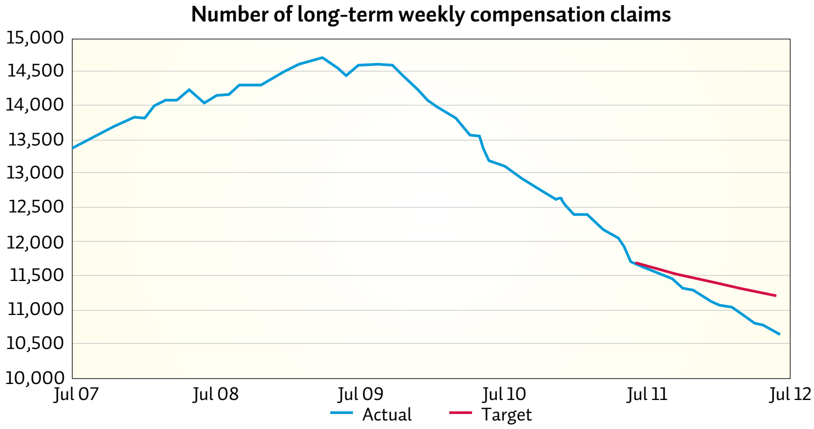
This is the result of ACC reducing the number of claims entering the long-term claims pool through proactive rehabilitation during the initial 12 months of a claim. Increased numbers of long-term clients have successfully returned to independence, which has also contributed to this result.

It is recognised that some clients will never exit the Scheme owing to the nature and severity of their injuries. However, where possible, ACC is committed to working with these clients to help them improve their quality of life.

	2011–12 Actual	2011–12 Target	2010–11 Actual
Volume of long-term claims The number of active long-term weekly compensation claims	10,606	11,831	11,615

In March 2011 it was anticipated that the long-term claims pool would be made up of 11,831 claims at 30 June 2012 as a result of the safe and timely rehabilitation of 406 clients. However, at 30 June 2011 the volume of the long-term claims pool was lower than the volume expected at 30 June 2012. Consequently, the anticipated rehabilitation of 406 clients was applied to the volume of the long-term claims pool as at 30 June 2011 (11,615).

Rehabilitation performance has been strong in 2011–12 and continues the trend seen in the past four years.



The following table shows the reduction in the number of active long-term weekly compensation claims by Account since 2010.

Active long-term weekly compensation claims	Number of long-term claims at 30 June 2012	Number of long-term claims at 30 June 2011	Number of long-term claims at 30 June 2010
Total	**10,606**	**11,615**	**13,157**
Work Account	4,491	5,082	5,913
Motor Vehicle Account	2,655	2,812	3,002
Non-Earners' Account	290	285	298
Earners' Account	2,765	3,039	3,545
Treatment Injury Account	405	397	399

70-day and 273-day rehabilitation rates

Both the 70-day and the 273-day weekly compensation measures track how successfully shorter-duration claims are managed and, if performance declines, may be a lead indicator of future growth in long-term claims.

Tracking performance against the 273-day weekly compensation measure is also particularly important for clients and New Zealand society as a whole. Research shows that injured workers who do not return to work within this period will not, on average, recover their pre-injury economic status.

	2011–12 Actual	2011–12 Target	2010–11 Actual
70-day rehabilitation rate The percentage of clients who receive weekly compensation and exit the Scheme within 70 days	70.6%	71.3%	70.8%
273-day rehabilitation rate The percentage of clients who receive weekly compensation and exit the Scheme within 273 days	93.9%	93.2%	93.6%

The target for the 70-day measure was not met. This was mainly due to:

- the reduction in weekly compensation claims lodged for clients with moderate injuries as Stay at Work services successfully help clients recover without taking time off work

- clients who do take time off work generally have more complex claims and require a longer period of rehabilitation
- the ageing population, and accordingly longer recovery times
- fewer claims lodged due to the effects of the economic downturn.

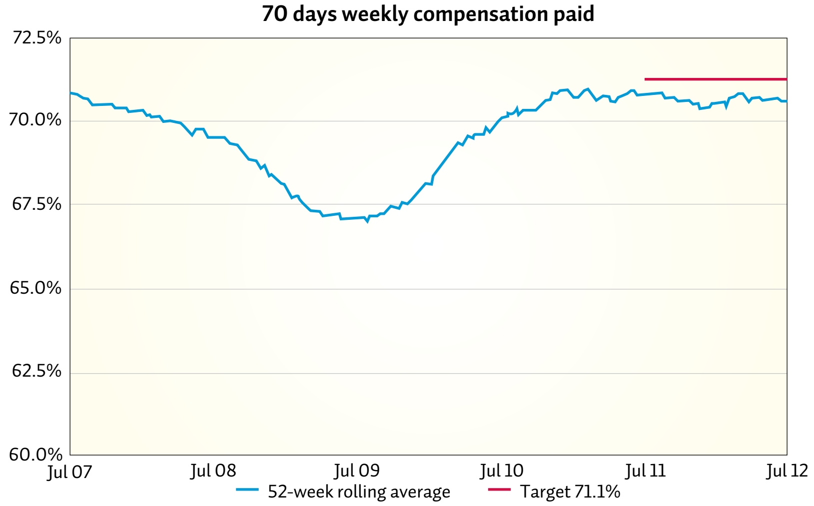
These factors have not resulted in a drop in performance for the longer-term measures, highlighting the effectiveness for clients of ACC's early rehabilitation focus.

The rehabilitation rates must be viewed in context with the proportion of claims lodged that go on to require weekly compensation and the number of abated weekly compensation claims (where a client remains at work in some capacity and is paid reduced weekly compensation).

Since January 2009 the proportion of new registered and accepted claims that convert into weekly compensation claims has reduced from 4.1% to 3.2%.

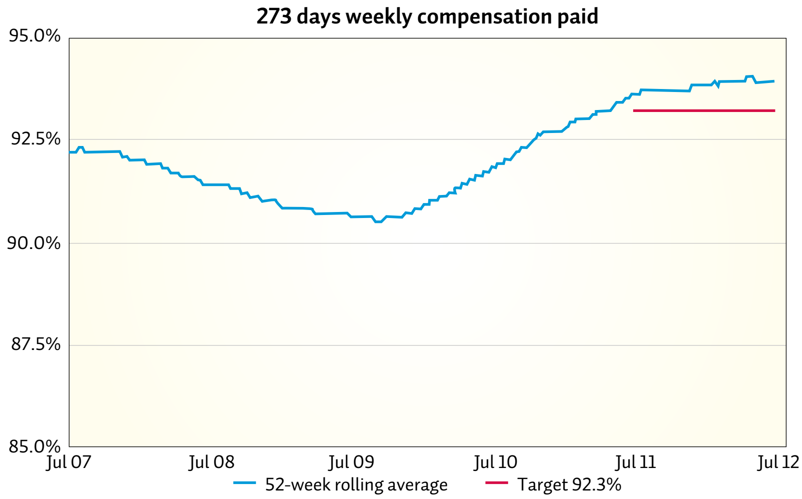
Currently 19% of weekly compensation claims are being paid abated weekly compensation. This has risen from 16% in August 2009. Abated claims reduce the overall cost of weekly compensation but do not count as a return to work or independence.

The Certification Project, initiated in November 2011, aims to improve health sector and client outcomes and to promote the benefits to injured clients of recovering at work. The project is expected to have a direct impact on current rehabilitation duration measurements and result in an improvement in the proportion of claims lodged that go on to require weekly compensation. This may cause the 70-day rehabilitation results to worsen as less complex claims are more effectively managed and clients recover from their injuries without needing to take time off work.



The 70-day rate has remained steady and this has been achieved by maintaining the strong focus on assisting clients in their rehabilitation early. The benefits of this focus are realised in the medium- to longer-term duration measures.

In 2011–12 ACC's performance at 273 days also remains steady at 93.9% and is above the previous highest recorded level for this measure, which was 93.4%. This performance has contributed to the reduced size of the long-term claims pool (as clients are successfully rehabilitated and returned to independence), in addition to lowering costs of weekly compensation.



Overall in 2011–12 the improved focus and management of all claims, particularly the more complex, longer-duration claims, has substantially reduced the growth in long-term claims.

Durable return-to-work monitor

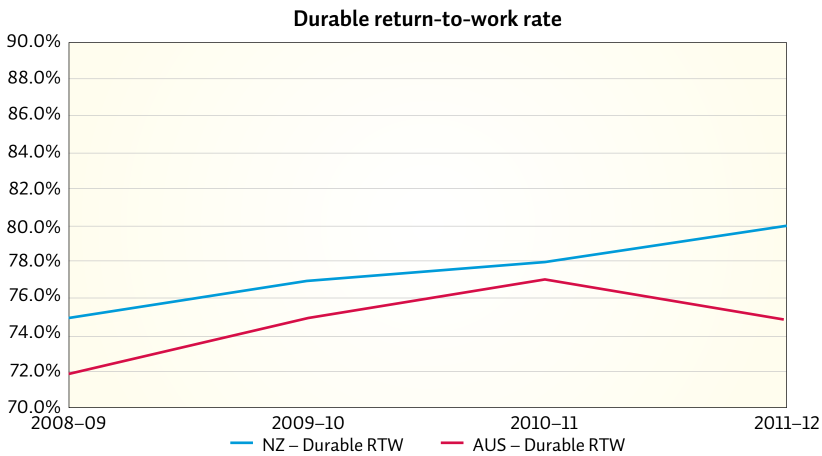
Consistent with ACC's vision, 'to be leading the world in accident prevention, care and recovery', the durable return-to-work measure allows ACC to assess its performance with regard to work injury claims against its closest international schemes.

The measure shows the long-term outcome of ACC's clients after they have been successfully rehabilitated and left the Scheme.

Traditionally ACC's performance has been above the Australian average. To ensure this performance is maintained, ACC set itself the target of continuing to perform above that average for the 2011–12 year.

	2011–12 Actual	2011–12 Target	2010–11 Actual (new measure)
Durable return-to-work monitor	ACC – 80% Australia – 75%	Above Australian average	ACC – 78% Australia – 77%

For the 2011–12 year ACC's durable return-to-work rate was 80%, 5% higher than the Australian national rate. This result continues ACC's strong performance over the past four years as shown in the graph below.



Key initiatives to support Outcome 2

National Serious Injury Service (NSIS)

The serious injury portfolio comprises about 5,000 people with permanent disabilities or significant impairments, who receive lifelong support from ACC.

The NSIS initiative has delivered a focused drive toward person-centred planning, which has delivered improved client outcomes including:

- 65% of client goals that were set were achieved or exceeded
- 23% of serious injury clients are participating in either full-time or part-time paid employment
- 78% of serious injury clients are satisfied or very satisfied with the service they receive from ACC.

A three-year strategy to improve consistency and to align attendant care hours with international benchmarks has helped deliver an Actuarial Release of approximately $840 million.

The NSIS is committed to continuous improvement in the management of all serious injury claims and is progressing work on Spinal Cord Injury, Birth Injury and Traumatic Brain Injury strategies. These strategies will ensure improved customer outcomes and satisfaction, fewer decisions being reviewed, and improved management of ACC's biggest cost and liability claims.

Improving return-to-work performance

Current certification practices are simply focused on certifying fitness for work or otherwise. However, it is critical that clinicians understand the important contribution that the workplace can make to effective rehabilitation.

Successful Better@Work pilots have been conducted with clinicians in Taupo and Timaru to increase consideration of the certification process and the role that even a partial return to work or limited duties can have on a successful, full return to work.

The Better@Work pilots have completed the three-year pilot period. The evaluation and understanding gained from these pilots have informed the development of a business case for the Certification Project. This will see a new approach to working with health providers and employers when clients who are in employment suffer an injury, and the national rollout begins on 1 October 2012.

Another initiative to support improving return-to-work performance is the Employer Centric Service (ECS) project, which was originally identified as a service to provide support to small or medium employers to assist the employee's successful rehabilitation and full return to work. As the initiative progressed, it became clear that large employers (and their employees) that do not currently participate in the Partnership Programme would benefit the most.

A trial of the ECS service commenced in July 2011 and concluded on 31 March 2012. Feedback from the evaluation of the trial was extremely positive and was a key driver for moving to a national implementation for the first 250 employers. Implementation of the national service will commence in September 2012 and is due to be completed at the end of June 2013.

Both the Certification and ECS projects are expected to improve ACC's return-to-work performance. The customer experience for an ACC client begins at the initial presentation to their treatment provider. If this involves certification for time off work and is managed well, there are benefits to the client in terms of their health and wellbeing, benefits to employers and benefits to the Scheme.

Outcome 3: Reduce the incidence and severity of injury where it is cost effective to do so

In 2011–12 ACC focused its injury prevention activities on high risk areas in three major population groups: motorists, public and the workplace.

ACC exceeded two of its injury prevention targets for the year. The impact of injury prevention activity on motorists was measured via the young driver programme, which targets drivers at a disproportionately high risk of injury on the road. The impact for the public segment was measured via the Vitamin D programme, which aimed to reduce the impact of falls on the elderly. The effectiveness of prescribing Vitamin D in reducing the impact of falls in this group is supported by international research.

Both programmes were aiming for a positive return on investment (ROI) of at least 2:1.

Measuring the ROI is an important indicator as it enables ACC to measure reductions in claims costs and future liability against the amount it has invested. This ensures ACC's investment is targeted at the appropriate injury prevention activities and that those activities are effective on the net costs of the Scheme.

The ROI for the young driver programme is calculated as the cost savings achieved by the programme divided by the programme costs. The cost savings are calculated as the number of new claims in the Motor Vehicle Account for clients aged 15-19 years compared with forecast multiplied by the average lifetime cost of these claims.

The ROI measure for the Vitamin D programme is calculated as the cost savings achieved by the programme divided by the programme costs. The cost savings are calculated as the number of new entitlement claims resulting from a fall for clients in residential care compared with this type of claim for clients aged 65+ not in residential care, multiplied by a statistically representative lifetime cost of targeted claims.

	2011–12 Result	2011–12 Target	2010–11 Result
Road – Return on investment young driver programme	11:1	Positive return on investment with a return of at least 2:1 (i.e. for each $1 spent ACC gets a $2 return)	New measure
Public – Return on investment Vitamin D programme	7:1	Positive return on investment with a return of at least 2:1 (i.e. for each $1 spent ACC gets a $2 return)	New measure

The third injury prevention target for Outcome 3 focused on claims reduction for the workplace and this was not achieved.

The workplace measure compares the injury rates of employers who participate in injury reduction programmes with those of their peers, allowing ACC to assess the effectiveness of its programmes.

As at 30 June 2012 there was no significant difference between those employers participating in an injury reduction programme and their peer group. This result was expected for the first year of measurement as not all employers have had a full year's involvement in their injury reduction programme. Participation is not expected to impact claim rates until the 2012–13 financial year.

	2011–12 Result	2011–12 Target	2010–11 Result
Work – Claim reduction among employers participating in an injury reduction programme in comparison with peer group of employers	1-2%	A 5-10% greater claim reduction than the average of their peer group	New measure

Performance against output delivery

The following sections report on performance in respect of each output class and the linkage to ACC's outcomes.

Output 1: Levy setting and collection

In order to deliver services, revenue must be collected. Future revenue needs in each Account are calculated through the levy-setting process. A proposal for levy rates is put out for public consultation and following this a recommendation is made to Cabinet, which then sets the final levy rates.

ACC must ensure it recommends levies that are sufficient to cover the future cost of claims incurred in that year and are enough to keep it on track to meet its full-funding targets.

Quantity measures

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

		2011–12 Actual	2011–12 Forecast	2010–11 Actual
Levy-funded Accounts				
Work Account	Number of employed and self-employed	2,212,000	2,356,000	2,175,000
	Levy revenue	$1,034M	$1,190M	$1,034M
Earners' Account	Number of earners	2,235,000	2,226,000	2,202,000
	Levy revenue	$1,523M	$1,603M	$1,529M
Motor Vehicle Account	Number of vehicles	3,113,000	3,148,000	3,089,000
	Levy revenue	$1,054M	$1,047M	$985M
Government-funded Account				
Non-Earners' Account	Number of non-earners	2,213,000	2,271,000	2,189,000
	Government appropriation	$905M	$897M	$957M
Mixed-funded Account				
Treatment Injury Account	Number of non-earners	2,213,000	2,271,000	2,189,00
	Government appropriation	$191M	$178M	$231M
	Number of earners	2,235,000	2,226,000	2,202,000
	Levy revenue	$158M	$98M	$94M

Cost measures

ACC measures the efficiency of its levy collection and setting process. This measure is expressed as levy collection costs as a percentage of total levy revenue (excluding appropriations).

Measure		2011–12 Actual	2011–12 Forecast	2010–11 Actual
Work Account	Cost of collection (ACC administration costs)	$17.9M	$17.6M	$16.7M
	*The collection costs for the Work Account as a percentage of total levy collection costs	43%*	35%*	34%*
Earners' Account	Cost of collection (includes payment to Inland Revenue)	$17.9M	$18.8M	$18.2M
	*The collection costs for the Earners' Account as a percentage of total levy collection costs	43%*	38%*	37%*
Motor Vehicle Account	Cost of collection (includes payment to the New Zealand Transport Agency and the New Zealand Customs Service)	$5.4M	$13.7	$13.6
	*The collection costs for the Motor Vehicle Account as a percentage of total levy collection costs	14%*	27%*	29%*
Total levy collection costs		**$41.3M**	**$50.1M**	**$48.6M**
Levy costs as a proportion of total levy revenue		**0.9%**	**1.0%**	**1.0%**

The reduction of $8.2 million in levy collection costs for the Motor Vehicle Account in 2011–12 is a result of ACC's work with the New Zealand Transport Agency.

Quality measures

ACC's levy collection process focuses on proactively contacting levy payers to discuss payment options and remove barriers to payment where possible.

The proportion of employers and self-employed people who make levy payments in full or make payment arrangements before the penalty period provides a measure of the effectiveness of levy collection. This is called the voluntary compliance measure and throughout 2011–12 voluntary compliance was much higher than in 2010–11 and well in excess of target.

Levy debt write-off measures the percentage of debt in the Work Account written off. The percentage has decreased in 2011–12. This reflects the higher amounts written off in previous years due to the impact of the economic recession.

Measure		2011–12 Actual	2011–12 Target	2010–11 Actual
Voluntary compliance rate	Proportion of employers and self-employed who either make levy payment in full or make alternative arrangements for payment within the notice deadline	80.6%	≥70%	72%
Levy debt write-off	Levy debt write-off as a proportion of total expected revenue in the Work Account	1.3%	2.0%	1.5%

ACC is working to ensure that its levy collection systems are transparent, fair and aligned with standard business practice. The organisation also aims to build more effective relationships with business levy payers and to help them to understand and meet their obligations.

Strong relationships with employers also support ACC's ability to work in partnership when helping injured workers get back to work quickly and safely.

ACC measures levy payer satisfaction using the Common Measurement Tool, which allows benchmarking of service quality against that of similar government agencies over time. Satisfaction is measured as the percentage of those surveyed who responded as being 'satisfied' or 'very satisfied' when asked about the overall quality of service delivery.

Levy payer satisfaction	2011–12 Actual	2011–12 Target	2010–11 Actual
Top 2,500 employers (account managed) as measured in the Common Measurement Tool	89%	85%	92%
All other employers and self-employed as measures in the Common Measurement Tool	67%	66%	68%

Output 2: Investment management

Each year, ACC aims to collect sufficient levies to provide for the lifetime costs of injuries in that year. The investment portfolios consist of funds that have been put aside to provide for the future costs of injuries that have already occurred.

These investment portfolios are managed primarily by the in-house investment management team, with some specific portfolios outsourced to external fund management companies.

Quantity measures

	2011–12 Actual	2011–12 Forecast	2010–11 Actual
Net funds under management	$20,426M	$18,706M	$16,601M
Investment income	$1,711M	$1,082M	$1,755M

Cost measures

Given the size of ACC's liability, it holds a significant reserve of funds. As at 30 June 2012 the net investment reserves portfolios were valued at $20,426 million. As the full funding deadline approaches, total funds under management will grow significantly.

Investment management efficiency is measured by showing total direct investment management costs as a proportion of net funds under management. In 2011–12 investment costs were $54 million or 0.28% of net funds under management. This is better than the target of 0.35%.

	2011–12 Actual	2011–12 Forecast	2010–11 Actual
Investment costs	$54M	$47M	$43M
Investment management costs as a proportion of net funds under management	0.28%	0.35%	0.24%

Quality measures

As an output, one measure of investment management quality is returns relative to the overall returns from the markets in which ACC invests. This is done through the use of a blended market average benchmark which provides a like-with-like comparison for ACC's investment returns. A full breakdown of performance for 2011–12 relative to market benchmarks is provided previously in Outcome 1.

A detailed explanation of investment management is provided in Part Eight.

Output 3: Claims management

Claims management seeks to improve client outcomes and provide effective support to injured people covered by the Scheme, helping them achieve independence (Outcome 2) by providing appropriate medical treatment, social and vocational rehabilitation services, and compensation.

Delivering positive client outcomes at the lowest practicable cost also supports financial sustainability (Outcome 1).

Quantity measures

The measures below show the volume and type of claims received by ACC. The Scheme is entitlement based, which means each claim is evaluated to determine whether it meets the requirements of the AC Act. ACC does not have the ability to ration its services as demand is determined by the number of covered injuries that occur. Quantity measures are therefore provided for information only.

Claim type	Definition	2011–12 Actual	Trend (new measure) 2010–11 Actual	2009-10 Actual
Registered	Total number of registered claims, by lodgement date	1,685,296	1,675,107	1,662,347
Medical fees only	Total number of medical fees only claims in the period, by lodgement date	1,357,187	1,478,215	1,468,551
Other entitlement	Total number of other entitlement claims (all entitlement claims excluding weekly compensation) that receive a payment in the period	94,200	99,977	112,406
Weekly compensation	Total number of weekly compensation claims that receive a payment in the period	82,253	85,902	95,731
Long-term weekly compensation	Number of long-term weekly compensation claims as at 30 June	10,606	11,615	13,157
New serious injury	Total number of new serious injury claims in the period, by lodgement date	200	208	254
Fatal	Total number of fatal claims in the period, by lodgement date	1,301	1,636	2,054

Cost measures

ACC measures the expenditure against budget for the key cost drivers of the Scheme (i.e. non-fatal weekly compensation, social rehabilitation, medical treatment and elective surgery). Details on the targets for this measure and ACC's performance against them are set out under Outcome 1 on page 33.

In addition to paying for rehabilitation and compensation, ACC must employ staff to manage claims and provide them with the capability to do so effectively. ACC's staffing numbers do not change in response to short-term claim trends. The number of staff (including third party contractors and excluding corporate staff) who manage claims is shown below.

Staff type	30 June 2012	30 June 2011	30 June 2010 (new measure)
Direct frontline staff	1,761	1,789	1,793
Indirect frontline staff	369	345	337
Total frontline staff	**2,130**	**2,133**	**2,130**

Claims handling costs

Claims handling costs predominantly consist of staff salaries and overheads. The cost of managing claims is shown below. ACC's claims management efficiency is measured by expressing total claims handling costs as a percentage of total claims expenditure.

In 2011–12 claims handling costs were under budget by $8 million. However, these costs as a percentage of total claims paid were above target by 0.6%. This increase was mainly due to a $208 million decrease in total claims paid from the 2011–12 budget of $2,811 million. Further details on the lower than expected total claims paid result can be found in Section Five on page 27.

Measure	2011–12 Actual	2011–12 Target	2010–11 Actual
Claims handling costs	$315M	$323M	$307M
Claims handling costs as a percentage of total claims paid	12.1%	11.5%	11.8%

Quality measures

Formal reviews give an indication of the quality of ACC's decisions and whether they are consistent with its legislation and code of conduct. Any person is entitled to have a decision reviewed and these are carried out by independent reviewers. The review uphold rate measures the percentage of formal reviews of ACC decisions that are found in favour of ACC.

This is an important indicator, as it helps to show that, although the organisation's operating environment has changed, the robustness of its decision-making processes is broadly consistent with prior years.

Measure	Definition	2011–12 Actual	2011–12 Target	2010–11 Actual
Number of reviews in favour of ACC	Number of cases lodged with DRSL with decision withdrawn, settled or in favour of ACC	78.9%	70.0%	68.3%[10]

Client satisfaction

Client satisfaction surveys monitor how ACC's clients rate the overall experience they receive. It is measured using the Common Measurement Tool, which allows benchmarking of service quality against that of similar government agencies over time.

Telephone surveys are conducted to measure the satisfaction of clients who have used ACC's claims management services within the previous three months. Client satisfaction is measured as the proportion of those surveyed who responded as being 'satisfied' or 'very satisfied' when asked about the overall quality of service.

Measure	2011–12 Actual	2011–12 Target	2010–11 Actual
Client satisfaction – measured using the Common Measurement Tool	70%	70%	70%

10 *The 2010–11 actual result only includes review decisions found in favour of ACC. The 2011–12 measure was updated to include withdrawn or settled reviews.*

Three-quarters (79%) of the clients surveyed in 2011–12 agreed that staff were competent and did what they said they would do. They also felt that they had been treated fairly (78%).

Output 4: Injury prevention

ACC has a dual role in injury prevention in New Zealand. The first is leading and facilitating the New Zealand Injury Prevention Strategy (NZIPS). The second is investing in the prevention of injuries that have serious consequences, alongside other agencies and community groups.

ACC relies on partnerships with government and community agencies to help reduce injury rates in New Zealand. The leadership of the NZIPS Secretariat enables ACC to strengthen its ability to reduce injury rates in New Zealand and under the NZIPS ACC has specific responsibility for leading the falls and drowning focus areas.

In addition to its involvement in NZIPS, ACC sets specific injury prevention targets in areas where it can significantly influence behaviours and outcomes. A number of targeted injury prevention programmes have been implemented in areas that carry a significant risk to the Scheme and New Zealanders, such as work, road and the home. Wherever possible, these programmes are supported by robust evidence of effectiveness and return on investment.

Quantity measures

As per ACC's legislative requirements, ACC can only spend money on injury prevention where it can be confident of delivering savings to the Scheme. Therefore, ACC only invests in injury prevention programmes where there is a high probability of success as demonstrated by robust evidence.

In 2011–12 ACC focused its injury prevention activities on high risk areas within three major population groups: motorists, the public and business. The following tables outline the target groups and reach targets for each injury prevention area.

The measure targeted at the 'motorist' group focused on the number of 15-19 year olds registered on the Practice website as a percentage of all potential young learner drivers. However, new legislation introduced at the end of August 2011 affected the age at which young people could become eligible to get their Learner Licence. As a result, new young learner driver registrations increased significantly during July and August (nearly 7,000 in August, compared with the usual figure of around 1,500).

ACC's target was not achieved due to the large increase in young drivers obtaining their Learner Licence in the two months prior to the law change. However, if the spike in July and August is removed, a 31% sign-up rate over the rest of the year was achieved.

Measure	Definition	2011–12 Actual	2011–12 Target	2010–11 Actual (new measure)
Road – Engagement in young driver programme	% of young people aged 15-19 years who obtained their Learner Licence in the period 16 May 2011 to 15 June 2012, and registered on the Practice website	24%	28%	n/a

The other two quantity measures exceeded target. The measure targeted at the 'public' group focused on engagement in the Vitamin D programme by measuring the percentage of residents in aged care facilities who were prescribed Vitamin D.

The measure targeted at the 'business' group focused on employer engagement in claim reduction programmes by measuring the percentage of employers, with a loading of 15% or higher under experience rating, who were engaged in a claim reduction programme.

Measure	Definition	2011–12 Actual	2011–12 Target	2010–11 Actual (new measure)
Public – Engagement in Vitamin D programme	% of residents in aged care facilities who will be prescribed Vitamin D	70%	64%	n/a
Work – Engagement in claim reduction programmes	% of employers with a loading of 15% or higher under experience rating who are engaged in a claim reduction programme by ACC	53%	40%	n/a

Cost measures

The following table provides a breakdown of the total injury prevention budget.

Measure $000 (new measure)	2011–12 Actual	2011–12 Forecast	2010–11 Actual
Total direct programme costs	11,432	12,700	11,729
Total cost of NZIPS team	293	551	533
Injury prevention staffing and administration costs (within the Insurance and Prevention Services business group)	10,206	12,151	14,246
Injury prevention costs incurred by other business groups	1,040	1,334	1,353
Total injury prevention costs	**22,971**	**26,736**	**27,861**

ACC measured the management of injury prevention through the following cost measures.

Measure $000 (new measure)	2011–12 Actual	2011–12 Target	2010–11 Actual
Total injury prevention expenditure against budget	22,971	26,736	27,861
Total direct programme costs against budget	11,432	12,700	11,729

Quality measures

In addition to the quality measures included under Outcome 3, ACC also measured the effectiveness of its leadership of the NZIPS Secretariat. This is shown in the table below.

Leadership of the NZIPS Secretariat

Measure (new measure)	Key deliverable	Achievement commentary
Lead development, implementation and monitoring of the strategy	NZIPS implementation plan 2012–15	Due to resource constraints within the NZIPS Secretariat, limited traction has been made on this work during the 2011–12 year. However, a draft work programme proposing an injury prevention 'centre of excellence' was put to the NZIPS Chief Executives' Forum in July 2012. It was agreed that the proposal had merit subject to further scoping work. The Chief Executives will meet later in the 2012–13 year to finalise a proposal.
	New Zealand injury prevention outcomes monitoring framework	The monitoring framework was established and reported against in 2011 (in the *New Zealand Injury Prevention Outcomes Report 2011*). The framework and report were reviewed and refined during the 2011–12 year. The 2012 edition of the *Outcomes Report* has been drafted and will be published later in the year.

PART SEVEN

Organisational capability and capacity

ACC has a focus on attracting, retaining and developing an engaged and high-performing workforce.

Particular focus areas are:

- keeping staff engaged in their roles and the organisation
- retaining high performers and key staff
- ensuring the core systems used by frontline staff are available and performing correctly.

Results in these focus areas are shown below:

	2011–12 Actual	2011–12 Target	2010–11 Actual
Staff turnover Attrition for high performers	7.5%	< 10%	9%
Staff engagement The ratio of engaged to disengaged staff as measured by the Gallup Staff Engagement Survey	6.25:1	3:1	5.22:1
Infrastructure and operations System uptime is monitored to ensure that core systems are available and performing	92.1%	>92%	New measure

Health and wellbeing

Key work programmes have been carried out in the past year to ensure that the organisation continued to focus on staff wellbeing, safety leadership and safety management practices.

Key focus areas have been on improving emergency preparedness for natural disasters; building the resiliency of staff, particularly in the Canterbury area; and improving the injury management of staff to reduce absenteeism.

Defibrillators have been introduced at all sites as resource for both staff and the local community.

Workforce profile and Equal Employment Opportunities

ACC promotes Equal Employment Opportunities (EEO) to ensure that its people capability practices are in line with its obligations as a 'good employer'. A key focus is on improving staff capability to provide services to an increasingly diverse client and customer base.

ACC has dedicated Pae Arahi (Māori Cultural Case Advisors) within its Cultural Services team, who work with ACC's leadership teams and frontline staff to:

- deliver culturally appropriate services to Māori
- enhance their understanding of Māori culture
- help build more effective relationships with Māori clients and communities.

The Cultural Services team also has dedicated Pacific Island and Asian Cultural Case Advisors and exists to ensure all New Zealanders can navigate the Scheme and to assist the organisation to manage clients from different cultures in the most appropriate manner ensuring their needs are met. Clients have a right to be treated with respect and to be communicated with in a way they understand. Cultural Services and its Cultural Advisors are a key part of how ACC meets this right for ethnically diverse clients. Expert cultural intervention enables clients to have their needs better identified and understood and also allows ACC to overcome language and cultural barriers which impede a client's rehabilitation and allows all staff to lift their cultural capability.

ACC has outlined a workforce and EEO strategy that is integrated with the people capability programmes outlined in the *Statement of Intent 2011–2014*.

FTE: 2,669 permanent and temporary staff.

Headcount: 2,849 permanent staff and temporary staff.

All staff turnover: 13.7%.

ACC's permanent workforce profile	
Age profile	ACC has a younger workforce than the national and public sector average, though the average age of ACC's workforce has increased from 40.9 years in 2011 to 41.2 years in June 2012.
Ethnic profile	Ethnic diversity remains stable and below the public sector rates, though increased representation of Māori, Pasifika and Asian staff has been achieved in regional target areas (e.g. Counties Manukau).
Disability profile	ACC's proportion of employees with a disability is 1.8% (permanent staff), which is below the public sector rate. The total number of staff in this group went from 54 in June 2011 to 55 in June 2012.
Gender profile	The majority of ACC's workforce is women, significantly higher than the public sector and national labour forces, with 69% female compared with 31% male as at 30 June 2012.

ACC's activities against seven key elements of being a 'good employer' are summarised below.

Element	ACC activity
Leadership, accountability and culture	• Leadership networking • Targeted leadership courses for future leaders, and new and experienced managers.
Recruitment, induction and selection	• Robust recruitment and selection processes • Active monitoring of candidates and workforce demographics according to age, ethnicity, gender and disability • Delivery of the employer brand using innovative advertising channels to attract diverse applicants • Profiles of staff from diverse backgrounds promoted on the ACC website.
Employee development, promotion and exit	• National orientation and induction for all staff • Talent management programme rolled out across management levels • Online career development programme • Personal development plans for all staff • Cultural awareness training programmes • Internal coaching service • IDMSC™ Certifications (International Disability Management Standards Council) programme in disability management.
Flexibility and work design	• Organisation-wide flexible working programme • Parent rooms in some locations.
Remuneration, recognition and conditions	• Initiatives to recognise high performers • Transparent, equitable and gender-neutral job evaluation practices.
Harassment and bullying prevention	• Managers and staff trained on their rights and responsibilities • Employee code of conduct and relevant policies available at all times.
Safe and healthy environment	• Strong focus on employee health, safety and wellbeing through provision of support services including: – employee assistance programme (EAP) – professional supervision support programme – staff claims unit with dedicated case managers – ergonomic workstation assessments – health and safety/WORKSAFE policy and training for staff – family violence and early intervention resource – annual workplace safety audit.

Investments

Why ACC invests

ACC has a policy of fully funding all new injuries. This means that, each year, ACC aims to collect sufficient levies to cover all the immediate and future costs of injuries occurring in that year. Because serious injuries will require ongoing expenditure by ACC for decades, a portion of the levies collected each year is set aside to provide for future costs. In the meantime, ACC invests those funds with the objective of earning a return on its investments that is significantly better than inflation.

ACC is also putting funds aside to meet the future costs of injuries that occurred in earlier years, because it is transitioning towards a fully funded model, and injuries incurred between 1982 and 1999 had not been fully funded as they were incurred. During that period, ACC was run on a pay-as-you-go model that had deferred responsibility for funding the injuries that were occurring at the time to future generations of levy payers.

The Government has set a legislative requirement that ACC must be fully funded by 2019.

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 2012 but which continue to require ongoing expenditure by ACC.

Risks

ACC plans its funding based on an assumption that it will earn a return on its investments that is slightly better than the return available from Government bonds. In making this assumption, ACC is exposed to the risks that long-term returns may ultimately be insufficient to fund ACC's existing claims, either because long-term returns could be lower than expected, or because inflation in claims costs could be higher than expected.

The investment portfolios are managed to balance the objectives of high investment returns (which allows ACC to charge lower average levy rates over time) and managing the risk that ACC could have to significantly increase levy rates in order to meet its long-term obligations to injured people.

The main economic and financial scenarios that would place upward pressure on levy rates are:

- a sustained decline in equity markets
- widespread credit defaults
- significantly lower interest rates, which would reduce the return ACC could expect to achieve as it invests and re-invests funds in capital markets over the next decade. A lower than expected rate of

future investment return would require ACC to set aside more money now to be confident of meeting future obligations

- a significant deterioration in the inflation outlook, which would increase the expected future costs of meeting ACC's obligations to people who have already been injured.

ACC seeks to manage the investment portfolios so as to reduce the extent of the increase in levy rates that could be required if these circumstances do occur. To achieve this, ACC needs to consider the risk of a deterioration in the difference between the value of investment assets and the value of the claims liabilities, rather than just focusing on investment assets in isolation. By holding long-term assets that will tend to appreciate in value when real interest rates decline, ACC can reduce the risk of a significant deterioration in this gap (and thereby reduce the risk of a significant increase in levy rates) even though these long-term investments may increase the apparent volatility of ACC's investment returns.

Allocation of funds

ACC's allocation of funds among different investment markets aims to balance the often competing objectives of enhancing returns and reducing the Accounts' exposure to the various risks discussed in the preceding section.

While it is not possible to fully offset all the long-term risks, ACC allocates funds among investment markets and sets investment policy with an aim of keeping each of these risks at a manageable level.

For example, ACC reduces its exposure to the risk of a decline in real New Zealand dollar interest rates by holding investment portfolios that are skewed towards those asset classes most likely to show strong returns should there be a decline in real interest rates in New Zealand (for example, New Zealand dollar bonds with a long remaining time to maturity). This approach has a significant influence on the composition of ACC's portfolios, which must be considered when comparing ACC's investments with other investment funds.

Compared with many other funds, ACC tends to invest a relatively large percentage of its funds in New Zealand investment markets, particularly fixed interest instruments with a long time to maturity. There are two main reasons for this: firstly, New Zealand investment markets match ACC's claims liabilities better than offshore markets, as ACC's claims liabilities are sensitive to real New Zealand bond yields; secondly, the internal management costs of ACC's New Zealand investments are much lower than the external management costs for offshore investments. Consequently, ACC makes a significant contribution to New Zealand capital markets, and is one of the largest investors in New Zealand companies, owning about 4% of the total capitalisation of the New Zealand sharemarket, and an even larger proportion of New Zealand dollar investment grade bonds.

As ACC's total investment funds grow over time, it will not be possible to maintain the same percentage allocation to New Zealand investment markets without holding a bigger and bigger slice of those markets. But if ACC ends up owning a more significant percentage of New Zealand investment markets, it could become increasingly difficult for ACC to outperform the market as a whole. ACC will take this point into account when deciding how its allocation to investment markets should evolve over time.

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

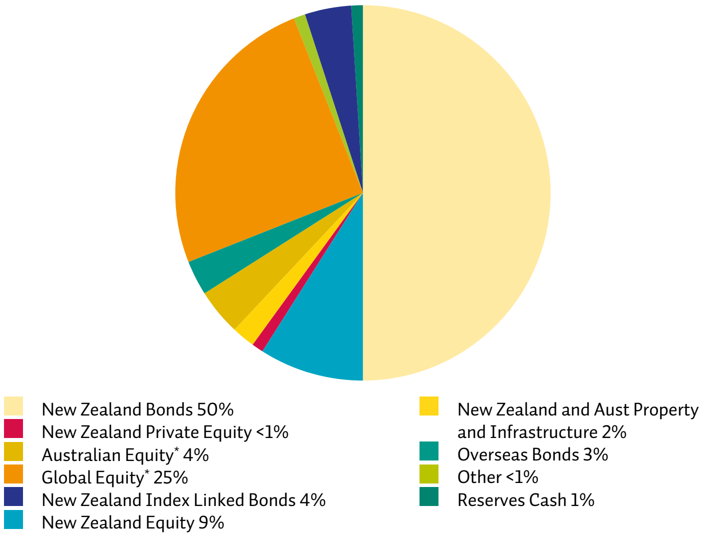
The investment allocations of the reserves portfolios differ by Account, reflecting different funding positions, different projected growth rates, and different claims liability characteristics of the various ACC

Accounts. Generally, Accounts for which ACC expects significant growth in investment funds have a higher percentage of their assets invested in equities than Accounts that are not expected to require such rapid growth in investment assets.

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 ACC's long-term expectations for the returns from the various investment markets and the need to limit the Accounts' various risk exposures. ACC's investment staff may make short- or medium-term decisions to vary from these benchmark allocations, within risk control parameters set by the Investment Committee.

Over the past year ACC has increased its allocation to global equity markets, and reduced its holding of fixed interest (bonds and money market investments). This reflects ACC's view that the relative attractiveness of equities over fixed interest has improved, due to lower interest rates reducing the outlook for returns from fixed interest investments.

Composition of aggregate reserves



* *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 10% of Total Reserves at end of June 2012.*

Overview of the past year

The past year has seen poor local currency returns from most sharemarkets. With the notable exception of the United States, most sharemarkets declined over the year to June 2012. 'Euro-Zone' sharemarkets were particularly weak over the year, due to concerns about the debt position of European governments, and the related austerity measures. Sharemarkets in Japan, Canada and 'Emerging Markets' also declined significantly. New Zealand's sharemarket had one of the strongest returns for the year, a slight positive return including dividends.

The US dollar and Japanese Yen strengthened over the year, whereas the Euro and related European currencies were weak. The New Zealand dollar was 'in the middle', weakening against the US dollar and Yen, but strengthening against the Euro. Overall, currency did not have a major effect on returns to New Zealand-based investors.

Longer-term government bond yields declined sharply for most developed countries, apart from a few European governments facing significant fiscal hurdles. By the end of the year, government bond yields in many countries were at their lowest level in 50 years, with long-term government bond yields of less than 2% for a number of major governments, including the United States, Canada, Germany, the United Kingdom, Japan and Switzerland. The yield on New Zealand's longest duration government bond finished the year at 3.43%, down from 5.20% last year.

Globally, 2011–12 has been a tough year for active portfolio managers, with many portfolios underperforming their benchmarks, and hedge funds posting negative returns for the year.

Future investment returns

While the decline in New Zealand bond yields has boosted ACC's investment income over the past year, it also implies a further lowering in the returns that ACC can anticipate from bonds in the future. In ACC's financial statements, this is reflected in a lower discount rate used to value ACC's claims liabilities, which had an upward influence on the value of ACC's claims liability.

ACC's Investment Unit does not believe that the prospective returns from equities have declined over the past year. However, ACC will continue to have more funds invested in bonds than in equities, because a legislative requirement to be fully funded by 2019 means that a large equity weighting could create too much uncertainty about levy rates over the lead up to this legislative target date.

Growth in ACC's investment portfolios

ACC's reserves portfolios increased in value by 23% from $16.6 billion last year to $20.4 billion at the end of June 2012. This growth comes from a combination of investment returns and extra funds from the surplus of levy income over Scheme expenditure.

ACC is running an operating surplus to grow the investment portfolio until it has sufficient funds to cover the claims liability, which represents the estimated future costs of injuries that have already been incurred (plus a margin to provide a higher probability that future costs will be met). Once this has been achieved, ACC will be fully funded.

This would mean that the investment portfolios for all Accounts, other than Non-Earners' and the portion of the Treatment Injury Account funded by the Non-Earners', would exceed the size of their claims liabilities, which are projected to grow roughly in line with growth in the size of the New Zealand economy in the long term.

How ACC's investment portfolios are managed

ACC's internal Investment Unit directly manages almost all of ACC's investment in New Zealand investment markets, and the majority of ACC's investments in Australia. Since April 2011 ACC's Investment Unit has also been directly managing a small portion of ACC's investment in global equities.

However, management of most of ACC's foreign assets continues to be outsourced to external fund management companies.

ACC has now been measuring the performance of its investment portfolios on a market-value basis for 20 years. The New Zealand bond portfolio has outperformed its benchmark[11] in 19 of these 20 years, and the New Zealand equity portfolio has outperformed its benchmarks in 18 of these 20 financial years.

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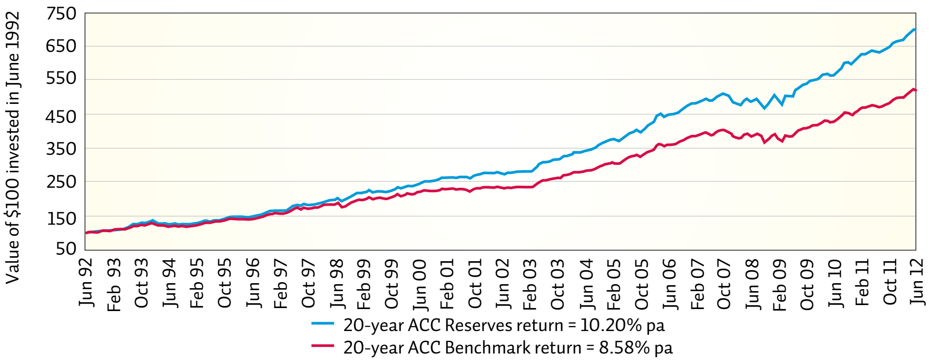
11 *Refer to page 62 'Investment Benchmarks' for information on the concept of benchmarks.*

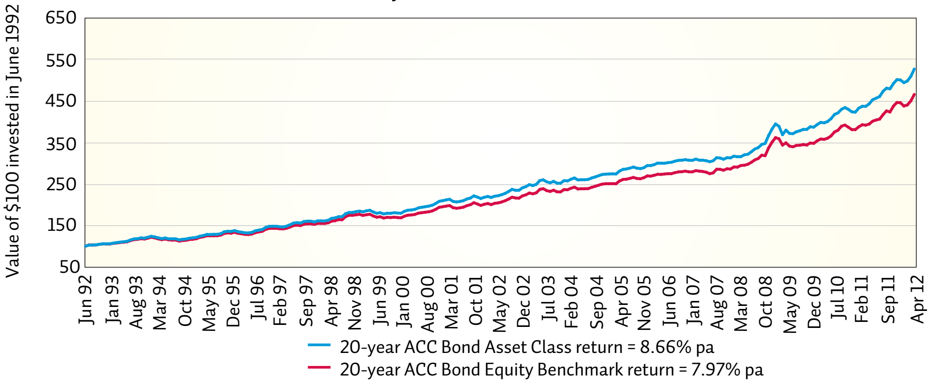
ACC's overall reserves portfolio has also outperformed its composite benchmarks for 19 of the past 20 financial years, including a clear run of outperformance for each of the last 17 consecutive financial years. ACC is not aware of any other large diversified fund anywhere in the world that can match the consistency of ACC's investment performance during this turbulent period for investment markets.

This has helped ACC's reserves portfolio to achieve compound returns of over 10% per annum for the past 20 years, which is higher than the returns that could have been achieved by passively investing in any major investment market over that 20-year period. Through the returns that ACC has achieved, every dollar that ACC had invested 20 years ago has effectively grown to be worth $6.98 today.

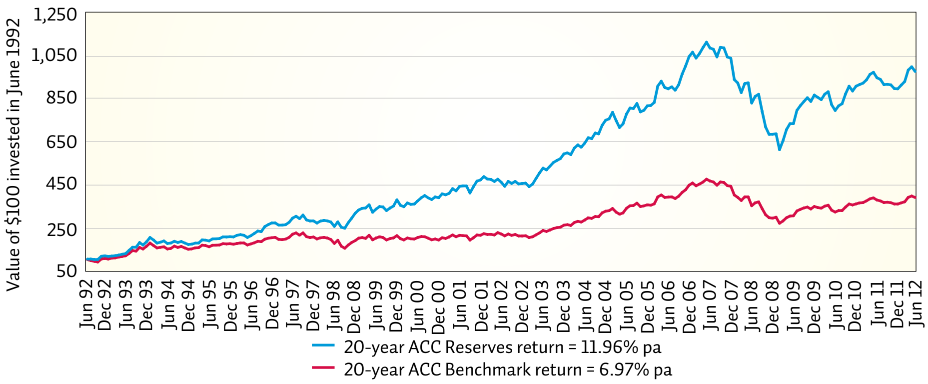
ACC 20-year Reserves Portfolio returns

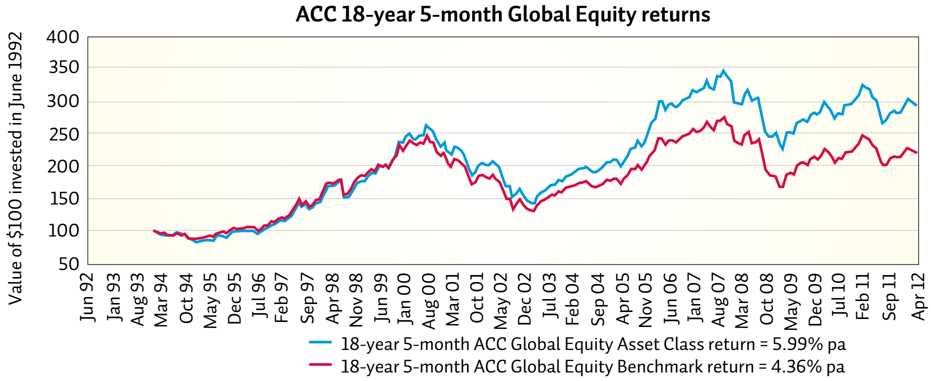


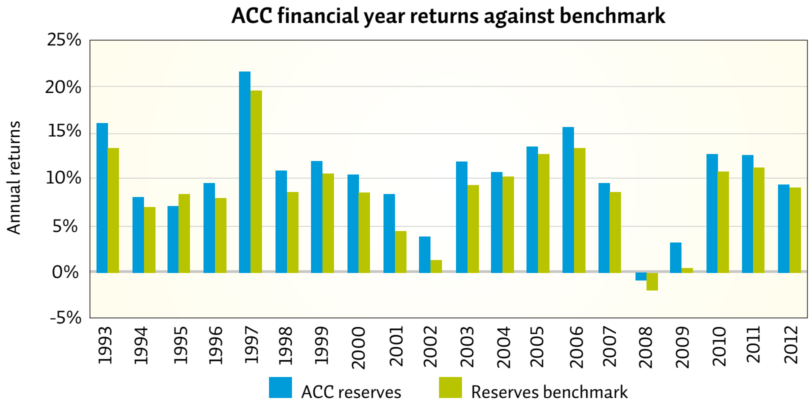
ACC 20-year New Zealand Bond returns



ACC 20-year New Zealand Equity returns







Investment returns for the 2011–12 year

ACC's reserves portfolios delivered an average return of 9.5% over the year.

It is pleasing to note that ACC has again outperformed the market benchmarks that are used to gauge investment performance. However, the margin by which ACC outperformed its benchmarks was just 0.27%, narrower than the margin of outperformance for any of the preceding 16 years. The reported returns are expressed prior to the deduction of 0.20% of investment-related costs, but they are depressed by offshore withholding taxes paid by ACC of 0.04%, whereas ACC's benchmarks make no deduction for withholding taxes. Taking account of both of these factors, ACC outperformed its benchmarks by just 0.11% on a pre-tax net-of-costs basis.

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

- ACC's internally managed bond portfolios outperformed their benchmarks, benefiting from unusually high yield spreads on non-government bonds.
- ACC's global equity portfolios also outperformed their benchmarks (in particular, ACC's internally managed global equity portfolio outperformed global equity markets by 8.4%), but the benefit from this outperformance was largely offset by a negative contribution from ACC's long-standing decision to skew some portfolios' benchmarks away from North America.
- ACC's two small capitalisation-focused Australian portfolios (one managed internally, the other by Paradice Investment Management of Sydney) both outperformed their benchmarks by more than 11%. However, the benefit from this outperformance was offset by underperformance in other Australian

equity portfolios and residual differences arising from how our Australian equity exposure was allocated between portfolios.

- ACC added value through its management of exposure to equity markets, by increasing its effective investment in equities (often through futures contracts) when equity markets were cheap. This contributed about 0.28% to investment returns.
- ACC's foreign exchange positioning contributed 0.21% to relative investment performance.
- The most significant negative factor affecting relative performance was ACC's use of interest rate derivatives to extend the interest rate sensitivity of ACC's investment portfolio. Since 2007, ACC has used interest rate swaps and other instruments to 'lock in' long-term interest rates, and thereby increase the extent to which the portfolio will increase in value in response to any decline in long-term interest rates. From an absolute perspective, this has been a very successful strategy for ACC, and it contributed a further 1.2% ($208 million) to ACC's investment return in 2011–12. However, from a relative-to-benchmark perspective, ACC had less exposure to interest rates through this interest rate derivative overlay than its neutral 'benchmark' position, and this decreased relative performance by 0.5%, as interest rates declined sharply over the 2011–12 financial year.

It is worth expanding on this last point. ACC is the largest investor in New Zealand's long-term fixed interest markets, and needs to undertake a large amount of buying each year just to maintain the size and average term of its existing portfolio. Also, rapid growth in ACC's investment portfolios over the past year led to a large increase in the amount of funds that ACC looked to invest in long-term fixed interest markets (including interest rate derivative overlays). Furthermore, over the past 18 months ACC has twice increased the 'benchmark' proportion of its portfolio that it uses to measure the neutral starting point for the use of interest rate derivatives. All of these factors increased the amount of bonds and interest rate derivatives that ACC would have needed to have acquired in order to maintain a neutral 'benchmark' exposure.

However, ACC's Investment Unit is conscious that it could be a significant disadvantage if ACC invested large sums indiscriminately, as the scale of ACC's buying could push up the price that ACC would have to pay. For this reason, ACC makes a point of being a very discriminating investor, and avoids situations where our buying or selling is of a scale that might distort market pricing. Unfortunately, over the past year, one disadvantage of being a discriminating buyer of fixed interest was that ACC did not invest quite as much through the interest rate derivative overlays as implied by its benchmarks, and the resulting under-invested position proved to be a significant drag on portfolio performance as bond yields declined sharply over the course of the year.

	Annual portfolio returns				
		This year		Average last 3 years	
	$M	Portfolio	Benchmark	Portfolio	Benchmark
Cash portfolio	**369**	**3.1%**	**2.7%**	**3.6%**	**2.9%**
Reserves Portfolios by Asset Class:					
Reserves Cash	517	3.0%	2.7%	3.4%	2.8%
New Zealand Index Linked Bonds	901	6.6%	6.2%	8.7%	8.6%
New Zealand Bonds	10,167	15.2%	14.5%	12.4%	10.9%
New Zealand Equity	1,898	0.9%	1.2%	9.2%	7.8%
New Zealand Private Equity*	91	4.7%	–	-1.5%	–
New Zealand and Aust Property & Infrastructure	504	10.4%	10.0%	13.5%	13.4%
Australian Equity	1,024	-11.6%	-10.5%	8.3%	3.6%
Overseas Bonds	680	13.7%	9.9%	15.8%	10.7%
Global Equity	4,451	-3.2%	-3.4%	5.3%	5.4%
Interest Rate Derivative Overlay[1]	99	1.2%	1.6%	0.8%	1.0%
Equity Future Overlay[1*]	94	0.4%	–	0.2%	–
Total reserves	**20,426**	**9.5%**	**9.2%**	**11.5%**	**10.4%**
By Funding Account:					
Earners'	5,423	9.1%	8.8%	11.2%	10.1%
Motor Vehicle	5,757	9.8%	9.7%	11.8%	10.9%
Work	5,180	9.9%	9.3%	11.6%	10.1%
Non-Earners'	2,284	8.8%	8.6%	11.4%	10.5%
Treatment Injury	1,782	9.2%	9.2%	11.8%	10.9%
Total reserves	**20,426**	**9.5%**	**9.2%**	**11.5%**	**10.4%**

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

* *The benchmark weight is zero for these asset classes.*

Please note:

Total Reserves and Cash are valued at last sale price. The Investments in the financial statements are measured at fair value under IAS 39 requirements.

This table shows investment returns after the deduction of some direct costs such as commissions (brokerage) and costs directly relating to the management of specific property investments. However, returns are shown prior to the deduction of other investment management costs of $36.55 million (including fees paid to external fund managers and the remuneration of ACC's investment staff), which detracted 0.20% from investment returns in 2011–12. 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%.

While ACC's investment performance only represented a slim outperformance of ACC's benchmarks, ACC's investment returns were significantly better than most similar funds in 2011–12. This reflects ACC's large investment in long duration bonds, and relatively low weighting in equity markets. This asset allocation positioning is influenced by how ACC's thinking about investment risk takes account of claims liabilities and the potential impact of investment policy on levy rates.

Interest rate derivative overlays

The nature of ACC's claims liability results in a significantly larger exposure to declines in real interest rates than ACC is able to offset through physical investment in bonds. To further offset this risk exposure, in 2007–08 ACC undertook significant fixed rate receiving positions in long dated interest rate swaps. Due to the decline in swap rates during 2007–08, 2008–09, 2009–10, 2010–11 and 2011–12, these positions have continued to make a significant positive contribution to investment returns.

Foreign currency exposure

ACC prefers to leave most of its foreign exchange exposure unhedged. One reason for this is that the New Zealand dollar tends to depreciate when equity markets are weak, which means that unhedged foreign exchange exposure can provide an offset against any losses due to weak equity markets.

Accordingly, ACC uses foreign exchange hedges to offset only a portion of the foreign exchange exposures inherent in its offshore investments. The Investment Committee of ACC's Board agrees a neutral level of foreign exchange exposure, but ACC may vary the actual level of foreign exchange exposure in a range around this neutral level.

For the last three years ACC has generally chosen to maintain a higher than neutral exposure to unhedged foreign exchange (i.e. a lower level of foreign exchange hedging). While ACC gained from this increased foreign exchange exposure in 2011–12, the gains only slightly exceeded foreign exchange positioning losses experienced in the 2010–11 year.

Investment benchmarks

Like most other fund managers, ACC uses market-based benchmark indices to serve as a point of comparison when considering the make-up and performance of its investment portfolios. These benchmarks indicate how ACC would expect to invest its funds if it did not have any views on the likely relative performance of different securities within a market. Accordingly, it is important that the benchmarks represent sensible starting points for the construction of portfolios that meet ACC's needs. In many cases, a recognised market benchmark is appropriate for ACC, but in other cases we manage ACC's portfolios against a different benchmark which better reflects ACC's objectives or market focus. For example, the high interest rate sensitivity of ACC's claims liabilities means that ACC has a need for 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 elements 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 reserve portfolios may invest. The benchmark weightings used for calculating the reserves portfolios' benchmarks are typically reviewed each year, and are intended to reflect a sensible starting point for the allocation of each Account's funds, based on the financial position of these Accounts and the pricing of investment markets at the time of each review. As such, each Account's benchmark allocation between investment markets has changed over time.

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 which 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 that had been based on factors that may have changed since the reference portfolio was fixed. For these reasons, ACC has elected not to adopt a fixed 'reference portfolio'. Further, ACC believes that its changing asset allocation benchmarks have represented a tougher hurdle for measuring performance than any fixed reference portfolio that it would have been likely to have adopted in the past. This is supported by the fact the 20-year returns 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 20-year period.

Probability of negative returns

Application of a typical risk analysis based on past performance of the various asset classes would suggest that each year there is roughly a one-in-five chance that ACC could record negative returns, based on the current composition of ACC's portfolio. In reality, ACC has had just one financial year of negative returns in the past 20 years (2007–08, when the reserves portfolio returned -0.8%).

Statistical analysis based on the past two decades would suggest that over any given year there is less than a 1% probability that ACC will record returns of -10% or worse. As recent history will not necessarily help us to understand the probability of extreme events, it is wise to assume that the probability of negative returns of this magnitude could be higher than suggested by this analysis. Although ACC has never experienced losses of near this magnitude in any of the 20 financial years (one-year periods ending on 30 June of each year) for which it has measured marked-to-market performance, at one point during the 'global financial crisis' 12-month returns declined to below -8%.

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

- A rise in bond yields of about 0.8% could result in ACC recording negative investment returns. However, ACC's overall funding position would improve as a result of a rise in bond yields, as the claims liability would decrease by an even greater amount than the decline in investment income.
- Based on current policy, ACC's Accounts will typically have an average of 36% 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 around 9% or more would tend to result in ACC recording negative overall investment returns.
- Generally, ACC's investments in individual companies or securities are too small to significantly endanger total investment returns in a single financial year. ACC only holds five equity investments of more than $100 million (see next table). The only individual credit exposures of more than $200 million are to the New Zealand Government, some New Zealand registered banks with strong credit ratings, and three large New Zealand Local Authorities.

50 largest equity investments as at 30 June 2012	ACC's investment value (NZ$M, under IFRS)
Telecom Corporation of New Zealand	181.5
Fletcher Building	175.0
Sky City Group	117.9
Auckland International Airport	116.6
Kiwi Income Property Trust	113.6
Infratil	96.5
AMP NZ Office	90.6
Contact Energy	86.4
BHP Billiton	64.9
Apple	64.8
Chorus	61.7
Goodman Property Trust	61.5
Mainfreight	59.9
Commonwealth Bank of Australia	59.1
Australia & New Zealand Banking Group	55.5
Guinness Peat Group	49.8
Colgate-Palmolive Company	49.7
LVMH Moët Hennessy Louis Vuitton	49.0
Diageo	48.6
Google	47.6
Fisher & Paykel Healthcare	47.1
Nestlé	46.1
Danone	45.4
Argosy Property	44.4
Danaher Corporation	44.3
Templeton Emerging Markets Investment Trust	44.2
Sky Network Television	43.2
Westpac Banking Corporation	41.6
United Technologies	40.2
Nuplex Industries	40.2
Pernod Ricard	40.0
Ryman Healthcare	39.3
Compass Group	38.5
Oracle Corporation	38.5
Reckitt Benckiser Group	38.4
Telstra Corporation	38.4
Ebos Group	37.7
Vector	36.2
Procter & Gamble	36.1
HSBC Holdings	35.8
Inditex (Ind.De Diseno Textil SA)	33.8
Occidental Petroleum Corporation	33.3
Fisher & Paykel Appliances	32.6
DNZ Property Fund	32.6
Taiwan Semiconductor Manufacturing Company	32.4
CSL	31.7
Accenture	31.3
Trade Me Group	30.4
National Australia Bank	30.1
Schlumberger	30.0

Ethical investment

Ethical investing statement

ACC's policy is to conduct its investment activities in an ethical manner which avoids prejudice to New Zealand's reputation as a responsible member of the world community. ACC also has a fiduciary responsibility to maximise the long-term risk-adjusted net return on reserves (considering risk in the context of ACC's claims liabilities).

ACC recognises that high standards of corporate governance and consideration of a company's impact on the community and environment have the potential to protect and enhance long-term investment returns. Specifically, ACC:

- **avoids** investing in activities which it believes are repugnant to the laws of New Zealand or regarded as unethical by a substantial majority of the New Zealand public
- **requires** all internal and external fund managers to transact purchases and sales of investments in an ethical manner
- **instructs** internal and external fund managers to avoid investing in companies which:
  - undertake activities that are illegal in the jurisdictions in which the company operates, or that are in contravention of United Nations (UN) sanctions
  - have a culture of disregard for laws, regulations, good governance procedures or interest of shareholders, unless the fund manager believes that direct contacts with the management of the company and/or proxy voting will result in improvements to this culture
  - have been identified by ACC as being contrary to its ethical policy
- **engages**, where appropriate, with companies whose securities are (or could be) held in ACC portfolios, which have serious environmental, social or governance (ESG) issues relative to the standards specified in the UN Global Compact, and which ACC believes would be regarded as unethical corporate behaviour by a substantial majority of the New Zealand public
- **encourages** its fund managers to cast proxy votes in a manner that is consistent with ACC's ethical investment policy.

Guiding principles

ACC's interpretation of its requirement to invest ethically has evolved based on the following underlying assumptions:

- ACC will only apply ethical principles which, in its judgement, are widely held by the New Zealand public.
- As a starting point, ACC will take the laws of New Zealand as a reflection of the views of the New Zealand public on the ethics or otherwise of a particular activity.
- In using New Zealand law as a gauge for assessing the ethics of a particular activity, ACC will look at the spirit of the law rather than the strict letter. A company might sometimes inadvertently break the law, but this does not make them unethical (although a culture of disregarding the law might suggest an unethical operation). However, where the New Zealand law reflects an ethical belief, we will look

to ban investments in companies undertaking these activities in other parts of the world, even if these activities are legal in the relevant overseas jurisdiction.

- ACC will also consider how directly a company is involved with what ACC has decided is an unethical activity. For example, while ACC avoids investing in companies involved primarily in the production of tobacco products, ACC may invest in supermarket companies which derive only a small proportion of their income from the sale of tobacco products.
- Engagement with companies to influence how they operate (rather than what activities they undertake) may enhance long-term, risk-adjusted investment returns. Companies with good governance are less likely to engage in dubious corporate behaviour. Also, consideration of ESG issues encourages actions to mitigate non-financial risks and improve the sustainability and success of the business over a longer-term horizon.
- When considering priorities for ESG issues, in addition to using New Zealand law as a gauge, we will also consider the set of 10 core corporate values outlined in the UN Global Compact.
- Finally, for practical reasons, the directions to exclude investments in specific companies do not apply to investments held indirectly through pooled funds or other collective investment vehicles.

Exclusions

ACC avoids investing in activities which it believes are repugnant to the laws of New Zealand or regarded as unethical by a substantial majority of the New Zealand public. This includes tobacco companies and companies involved with the development and/or production of anti-personnel mines, cluster munitions and nuclear explosive devices. The list of companies excluded from ACC's investment universe is periodically reviewed.

Screening and engagements

ACC extended its ethical investment policy in August 2010 to include 'engagements' with some companies with significant environmental, social or governance (ESG) issues. Formal engagement aims to modify corporate behaviour. It may involve writing letters to senior management or the board of the company, meeting with senior management or the board, proposing and/or supporting resolutions at company meetings, or collaborating with like-minded investors on any of these. ACC collaborates with other Crown financial institutions to screen portfolios for securities issued by companies considered to have 'high-risk' ESG issues. ACC is likely to engage with New Zealand-based companies directly, or in collaboration with other Crown financial institutions. Engagement with overseas-based companies is likely to be in collaboration with other investors, including via the UN PRI Engagement Clearinghouse.

The priority ESG issues are: significant human rights abuses, culture of corruption, gross environmental damage, and persistent and serious disregard for health and safety of workers or customers.

UN Principles for Responsible Investment

ACC became a signatory to the UN Principles for Responsible Investment in March 2008. These Principles aim to provide a general framework for investors to incorporate environmental, social and governance (ESG) issues into their management of investment portfolios. Where consistent with their fiduciary responsibilities, signatories commit to implementing the following six principles:

- incorporate ESG issues into investment analysis and decision-making processes
- active ownership and incorporation of ESG issues into their policies and practices
- seek appropriate disclosure on ESG issues by the entities in which they invest
- promote acceptance and implementation of the Principles within the investment industry
- work together to enhance effectiveness in implementing the Principles
- report on activities and progress towards implementing the Principles.

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, with the Guardians providing secretariat services.

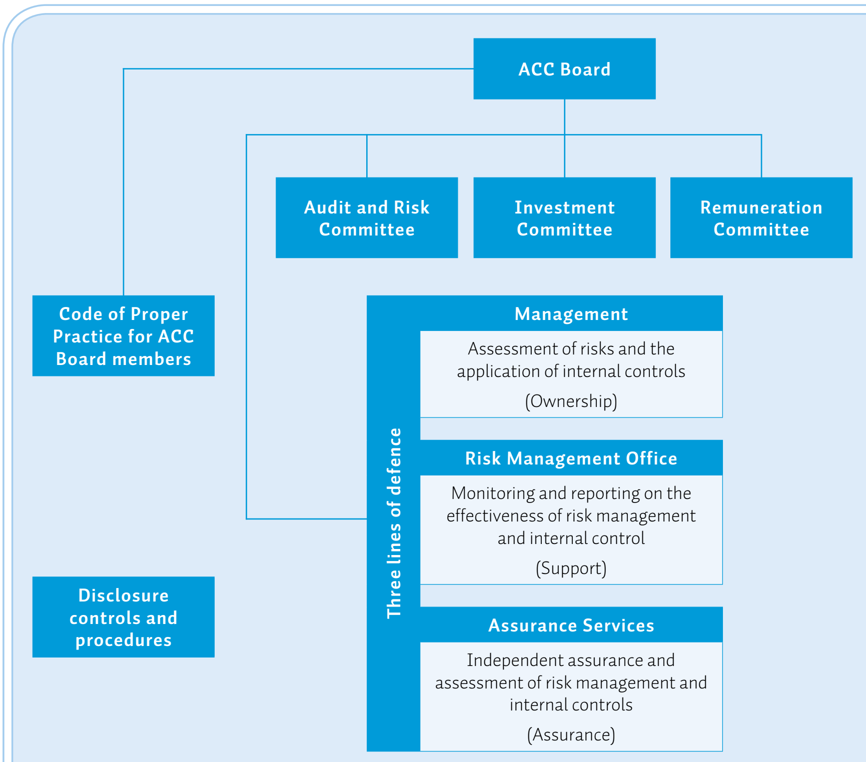
PART NINE

Governance

ACC operates under the AC Act. It is a Crown entity for the purposes of the Crown Entities Act 2004. It is exempt from income tax (except for its subsidiary companies) and is governed by a board appointed by the Minister for ACC. Its philosophy on corporate governance is to attain the highest levels of transparency, accountability, integrity, efficiency and sustainability.

ACC Board

The current structure of the Board and its committees is shown below.



The annual report on the effectiveness of internal control over financial reporting is based on:

- an internal audit evaluation of the efficiency or otherwise of the internal control
- line management performing self-assessments of the appropriateness and efficiency of their internal control
- the independent auditor's attestation and report on management assertions.

These activities provide evidence of effective controls for all 'relevant assertions' for all 'significant accounts and disclosures'.

The Board consists of eight non-executive members. The Minister's formal line of accountability with ACC is through the Board's Chair. Board appointments are for three years. Reappointment is permissible for a further term. When nominating a person for appointment, the Minister is required to consider the balance of expertise on the Board.

Board responsibilities

A Statement of Intent is prepared annually, and includes:

- provision of services
- roles and governance structure
- functions in relation to the management of each Scheme Account
- relationships with subsidiary companies.

The Board is responsible for ensuring that the organisation carries out its statutory requirements under the AC Act of:

- providing statutory entitlements
- promoting measures to reduce the incidence and severity of personal injury (including occupational disease and treatment injury)
- managing the assets, liabilities and risks for the various Scheme Accounts.

The Board is responsible for the success of ACC and has a formal schedule of matters reserved for its decisions. These matters include:

- the strategic direction within a framework of prudent and effective controls
- approval of annual budgets
- financial reporting
- major acquisitions and disposals and significant capital expenditure
- significant changes in accounting policies
- selecting and appointing the Chief Executive and monitoring and reviewing the Chief Executive's performance.

A key role of the Board is the development of corporate strategic direction. In addition, the Board sets the values and standards, including matters relating to corporate social responsibility, and ensures that its obligations to its stakeholders and others are understood and met.

Delegation

The Board sets and maintains clear policies that define the individual and collective responsibilities of management, the operating structure and lines of responsibility, and delegated authority.

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

Day-to-day operations are managed by senior managers led by the Chief Executive. The Chief Executive and Board operate under procedures based on the Committee of Sponsoring Organisations of the Treadway Commission (COSO) framework of internal controls.

Advice

The Board seeks independent professional advice when required. Board members also have direct access to the advice and services of internal and external actuaries, Assurance Services (internal audit team) and independent external auditors.

Remuneration

Remuneration for Board members is set in accordance with the rates set by Government.

Induction and development

All new members are provided with training and guidance on their duties, responsibilities and liabilities as Board members. More formal training is also available through the Institute of Directors.

ACC has a Code of Conduct for its management and staff, specifying business standards and ethical considerations. A Code of Proper Practice for Board members covers ethical issues.

Risk management framework

Internal control systems are designed to manage the risks inherent in the process of achieving business objectives. Written policies and procedures define the limits of delegated authority and provide a risk management framework. These provide reasonable assurance against material misstatements or losses but no system of controls can provide absolute assurance.

The Board, through its Investment Committee, formally approves the investment policy, which sets limits to mitigate treasury risks. The Chief Executive reviews and reports to the Board the most significant risks. Operating procedures include a system for reporting information to the Board and senior management weekly and monthly. When setting budgets and forecasts, management identifies, evaluates and reports on potential business risks.

An Enterprise Risk Management framework has been established incorporating three overarching components: management of risks in each area embedded within the relevant business groups, coordination of risk reporting and key initiatives by a dedicated Risk Management Office, and independent assessment of the effectiveness of risk mitigation and management by the Assurance Services team.

Risks to organisational strategy and objectives may arise in existing operations or from the external environment, including economic, technological and market factors. Review of significant risks to objectives involves consideration of financial, non-financial and reputational factors across the organisation in order to form an overview of potential impacts.

The effectiveness of the internal control system is evaluated and reviewed by the Chief Executive and the Audit and Risk Committee, which receives reports from the Assurance Services unit. Regular meetings are held between ACC, external auditors and the Office of the Controller and Auditor-General.

Disclosure of interests

The AC Act provides a mechanism for the disclosure of interests and this process has been followed. The relevant interests of Board members are reviewed monthly.

Institutional governance

ACC operates within a clearly defined structure, with specified lines of responsibility and delegated authority. The Board delegates day-to-day management to the Chief Executive and maintains clear policies that define the individual and collective responsibilities of management.

The roles and responsibilities of the Chief Executive and senior managers are described in the following section.

Treaty of Waitangi

ACC recognises that the Treaty of Waitangi is regarded as a founding document of government in Aotearoa New Zealand. As a Crown entity, ACC has an obligation to support the Crown in its Treaty relationship, while delivering its services in ways that enable equitable outcomes for Māori.

Board and committee structure

Investment Committee

The Investment Committee sets risk tolerance guidelines and benchmarks and reviews the investment activities of the investment portfolios. The Committee controls the policy and procedural operational frameworks for the investment of funds. These frameworks are reviewed and updated when required.

The Investment Committee meets quarterly, with teleconferences in the intervening months as needed.

Audit and Risk Committee

The Audit and Risk Committee meets quarterly to monitor and review processes, systems and results to help ensure the Board fulfils its audit responsibilities.

The Committee provides oversight of:

- reviewing and monitoring to ensure there is a sound system of risk management that addresses the key risks
- accuracy of financial statements and the assumptions within those statements
- external and internal audit activities, including focus areas and costs
- efficacy of internal control processes, including staff fraud
- assessment of the outstanding claims liability.

Remuneration Committee

The Remuneration Committee reviews the performance and remuneration of the Chief Executive and senior management. The Committee also approves proposed organisation-wide remuneration policies. When necessary, the Committee takes independent advice.

Board and Committee attendance – 1 July 2011 to 30 June 2012

		Committees			
	Board	Audit & Risk	Investment	Remuneration	
2011 Meeting dates	Jul 19 Aug 25 Sep 22 Oct 19 Nov 17 Dec 13	Aug 18 Dec 12	Sep 20 Nov 04 Nov 16	Aug 25	
2012 Meeting dates	Feb 22/23 Apr 18 May 16 Jun 20	Mar 14 Jun 20	Mar 6 Apr 18 May 11	Apr 18	
	Chair	**Ex-officio**	**Ex-officio**	**Chair**	**Fees $**
John JUDGE Chair *Term expired 30 Jun 2012*	Jul 19 Aug 25 Sep 22 Oct 19 Nov 17 Dec 13 Feb 22/23 Apr 18 May 16 Jun 20	Aug 18 Mar 14 Jun 20	Mar 6 Apr 18	Aug 25 Apr 18	Actual: $77,418* **includes GST*
Total	10/10	3/4	2/6	2/2	
	Deputy Chair	**Member**	**Member**	**Non-Member**	**Fees $**
Michael (John) MCCLISKIE Deputy Chair *Term expired 30 Jun 2012*	Aug 25 Sep 22 Oct 19 Nov 17 Dec 13 Feb 22/23 Apr 18 May 16 Jun 20	Aug 18 Dec 12 Mar 14 Jun 20	Nov 04 Nov 16 Apr 18 May 11	Aug 25 Apr 18	Actual: $42,075
Total	9/10	4/4	4/6	2/2	

	Committees				
	Board	**Audit & Risk**	**Investment**	**Remuneration**	
2011 Meeting dates	Jul 19 Aug 25 Sep 22 Oct 19 Nov 17 Dec 13	Aug 18 Dec 12	Sep 20 Nov 04 Nov 16	Aug 25	
2012 Meeting dates	Feb 22/23 Apr 18 May 16 Jun 20	Mar 14 Jun 20	Mar 6 Apr 18 May 11	Apr 18	
	Member	**Non-Member**	**Chair**	**Non-Member**	**Fees $**
Robert CAMPBELL *Term expired 30 Jun 2012*	Jul 19 Aug 25 Sep 22 Oct 19 Nov 17 Dec 13 Apr 18 May 16 Jun 20	Jun 20	Sep 20 Nov 04 Nov 16 Mar 6 Apr 18 May 11	Aug 25 Apr 18	Actual: $38,709* **includes GST*
Total	9/10	1/4	6/6	2/2	
	Member	**Member**	**Member**	**Non-Member**	**Fees $**
Murray HILDER *Term expired 31 Jul 2012*	Aug 25 Sep 22 Oct 19 Nov 17 Dec 13 Feb 22/23 Apr 18 May 16 Jun 20	Aug 18 Dec 12 Mar 14 Jun 20	Nov 16 Apr 18 May 11	Aug 25 Apr 18	Actual: $38,709* **includes GST*
Total	9/10	4/4	3/6	2/2	
	Member	**Member**	**Member**	**Non-Member**	**Fees $**
Jane HURIA	Aug 25 Sep 22 Nov 17 Dec 13 Feb 22/23 Apr 18 May 16 Jun 20	Aug 18 Dec 12 Mar 14 Jun 20	Nov 04 Nov 16 Apr 18 May 11	Aug 25 Apr 18	Actual: 38,709* **includes GST*
Total	8/10	4/4	4/6	2/2	
	Member	**Non-Member**	**Non-Member**	**Member**	**Fees $**
John MEEHAN *Appointed 14 Jul 2011*	Jul 19 Aug 25 Sep 22 Oct 19 Nov 17 Dec 13 Feb 22/23 Apr 18 May 16 Jun 20	Aug 18 **Chair** Dec 12 Mar 14 Jun 20	Sep 20 Nov 04 Nov 16 Apr 18 May 11	Apr 18	Actual: $30,855
Total	10/10	4/4	5/6	1/2	
	Member	**Non-Member**	**Non-Member**	**Member**	**Fees $**
Paula REBSTOCK	Jul 19 Sep 22 Oct 19 Nov 17 Dec 13 Apr 18 May 16 Jun 20	Mar 14 Jun 20	Sep 20 **Member** Nov 04 Nov 16 Apr 18 May 11	Apr 18	Actual: $33,660
Total	8/10	2/4	5/6	1/2	
	Member	**Non-Member**	**Non-Member**	**Non-Member**	**Fees $**
Gillian SPOONER	Jul 19 Aug 25 Sep 22 Oct 19 Nov 17 Dec 13 Feb 23 Apr 18 May 16 Jun 20	Aug 18 **Member** Dec 12 Mar 14 Jun 20	Sep 20 Nov 04 Nov 16 Apr 18 May 11	Aug 25 **Member** Apr 18	Actual: $33,660
Total	10/10	4/4	5/6	2/2	
	Non-Member	**Non-Member**	**Member**	**Non-Member**	**Fees $**
Patrick DUIGNAN *External Investment Committee Member*			Sep 20 Nov 04 Nov 16 Mar 6 May 11		Actual: $34,500* **includes GST*
Total	0/10	0/4	5/6	0/2	
	Non-Member	**Non-Member**	**Member**	**Non-Member**	**Fees $**
Stephen GREENWOOD *External Investment Committee Member*			Sep 20 Nov 04 Nov 16 Mar 6 May 11		Actual: $34,500* **includes GST*
Total	0/10	0/4	5/6	0/2	

Indemnity and insurance

Board members and staff have statutory protection while carrying out their duties in good faith. There is also a comprehensive insurance programme in place to cover physical loss of corporate property and to provide protection for staff while they travel on ACC business. The insurance requirements are renewed progressively to ensure any risk and exposure are minimised.

The Board indemnifies Directors of the Shamrock Superannuation Limited Board.

Assurance

An internal audit function is maintained to meet the objectives of delivering a systematic, disciplined approach to evaluating and improving the effectiveness of its risk management, control and governance processes.

The internal audit function is authorised by the Board and the Chief Executive to direct a comprehensive programme of internal audit activities, with full and unrestricted access to all functions, staff, property, personnel records, accounts, files and other documentation.

The internal audit work programme is subject to annual endorsement by the Audit and Risk Committee and the results, progress and performance are regularly reviewed by that Committee. The Head of Assurance Services is able to meet separately with the Audit and Risk Committee and the Board Chair quarterly, without management present.

ACC's status of compliance with legislation and governance standards

ACC conducts an annual self-assessment of its compliance with legislation and governance standards for best practice. This year's assessment indicates that ACC has, in general, achieved compliance with legislation and governance best practice. Minor areas of non-compliance were identified and appropriate action plans are in place to correct these within an acceptable timeframe.

Auditor independence

The Controller and Auditor-General (Auditor-General) is the auditor of ACC. Ernst & Young has been contracted to undertake the audit on the Auditor-General's behalf.

Ernst & Young must undertake the audit in accordance with the contract between the Auditor-General and itself, which includes applying the Auditor-General's auditing standards.

ACC Board members at 30 June 2012

John Judge – Chairman

Appointed to the Board in March 2009.

John Judge is Chairman of ANZ National Bank Limited, and a Director of Fletcher Building Limited and Fletcher Building Finance Limited. John is also a member of the Otago University School of Business Advisory Board. Formerly a Chief Executive of Ernst & Young New Zealand, John has considerable experience in Australasian business and brings extensive financial and analytical knowledge to the Board and is a Fellow of the New Zealand Institute of Chartered Accountants.

Term ended at 30 June 2012.

Michael (John) McCliskie – Deputy Chairman

Appointed to the Board in March 2009.

Appointed Deputy Chairman: April 2011.

John is an experienced company director who has been involved with a range of small and medium enterprises, cooperatives and corporate and government entities. He has a strong understanding of financial and accounting principles and practices, including foreign exchange management. He also has a background in international marketing.

John has wide-ranging experience in governance and insurance spanning over 30 years. He was a Director of the New Zealand Apple & Pear Marketing Board (later Enza) for 20 years, 13 of these years as Chair, and a Director of Farmers' Mutual Group from 1990 until 2008. He was a Director of TVNZ from 1999 to 2002 and of Alliance Group for 14 years.

John is currently a Director of Nelson Electricity Limited, Network Tasman Limited and Alandale Orchards Limited, and is Chairman of Heartland Group (NZ) Limited.

Term ended at 30 June 2012.

Rob Campbell

Appointed to the Board in March 2009.

Rob has over 20 years' experience in investment management and corporate governance. He is Chairman of Guinness Peat plc Limited, and Director and audit and risk committee member of Aquasure Pty Limited. He is a Director of Coats plc Limited, Turners & Growers Limited and AMP New Zealand Office Limited.

Rob is also a board or advisory board member of several private equity and hedge funds globally. He has previously directed the investments of a large family office, and held board appointments in numerous private sector and public sector organisations in New Zealand.

Term ended at 30 June 2012.

Murray Hilder

Appointed to the Board in March 2009.

Murray has over 30 years' experience as an actuarial consultant. He is an experienced commercial manager with strategic, financial, company taxation, human resources management, ICT project management and marketing skills gained from running diverse businesses.

He is also a former president of the New Zealand Society of Actuaries and a fellow of the New Zealand, Australian and United Kingdom actuary societies.

Term ended at 31 July 2012.

Paula Rebstock

Appointed to the Board in April 2011.

Paula is an Auckland-based economist and company director. She is Deputy Chairperson of KiwiRail, Chairperson of the Insurance and Savings Commission, Director of Health Benefits Limited, a member of the University of Auckland Business School Advisory Board, and a non-executive Director of Synergia Limited. She is also a lead reviewer for the Performance Improvement Framework for the State Services Commission.

Paula has been Chairperson of the Welfare Working Group (2010–2011) and Chairperson of the New Zealand Commerce Commission (2003–2009) as well as a member of the Commission for 11 years.

Paula has an economics background, with a BSc (Economics) from the University of Oregon, and a Diploma and a Master of Science Degree (Economics) from the London School of Economics. She has also carried out further postgraduate studies at the Kiel Institute of World Economics.

Appointed Interim Chair of the Board, the Investment Committee and Remuneration Committee from 1 July 2012.

Jane Huria

Appointed to the Board in March 2009.

Jane has been a board member for over 20 years in public and private sector entities, including as Director/Shareholder in HSR Governance Limited, which provides governance and advisory services nationally and internationally.

She is Ngāi Tahu, affiliating to Ngāi Tuahuriri, and has served on various Ngāi Tahu commercial boards, including the Ngāi Tahu Holdings Corporation for six years. Jane has several governance roles in the Christchurch post-earthquake response.

Jane also serves on several boards with corporate dairying interests. She is the Deputy Chair of the Electoral Commission and serves on the board of the Christchurch Court Theatre.

John Meehan

Appointed to the Board on 14 July 2011.

John has 34 years' experience as a practising chartered accountant with PricewaterhouseCoopers (PwC), in the United Kingdom, the United States and New Zealand, in the audit and assurance division. He was a partner in the firm for 24 years and retired in December 2010.

He is a member of the New Zealand Institute of Chartered Accountants' Professional Conduct Committee and the Institute of Directors, an executive Director of Olivo Limited and Wairarapa Olives Limited, a board member of The Royal New Zealand Ballet and a member of the audit committee of the Historic Places Trust.

John is Chair of the Audit and Risk Committee.

Gillian (Jill) Spooner

Appointed to the Board in April 2011.

Jill brings to the Board financial consultancy skills and experience advising on complex operational, financial and governance risk. As a former actuary and senior consultant at Mercer Human Resource Consulting New Zealand Limited, she has provided advice on all aspects of the operation of superannuation schemes.

Jill is a member of the Nominating Committee for the Guardians of the New Zealand Superannuation Fund. She has served as a member of the Council of the Society of Actuaries and has been Chair and Vice-Chair of the Association of Superannuation Funds of New Zealand (now Workplace Savings New Zealand).

Board member departures during 2011–12

Dr Marie Bismark – Term ended 14 July 2011.

Board members as at publication of this Report

Paula Rebstock – Chair (effective 3 September 2012)

Trevor Janes – Deputy Chair (appointed 3 September 2012)

Gillian Spooner

John Meehan

Jane Huria

Professor Des Gorman (appointed 3 September 2012)

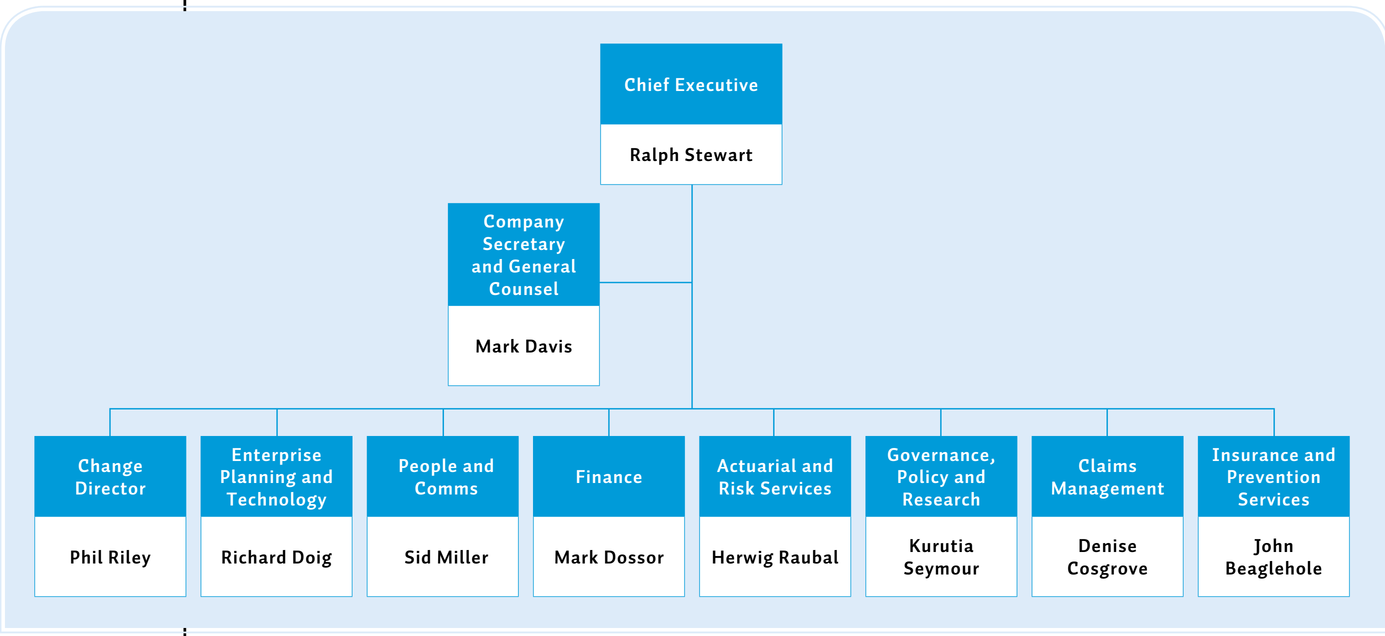
Kristy McDonald QC (appointed 3 September 2012).

The Executive

The Chief Executive and the positions reporting directly to the Chief Executive are known collectively as 'the Executive'. The Executive is responsible for the successful day-to-day operation of ACC.

Following the appointment of the new Chief Executive in September 2011, ACC's organisational structure underwent significant change. This included the establishment of two additional General Manager positions: the General Manager, Actuarial and Risk Services and the General Manager, Enterprise Planning and Information Technology. The Board and Corporate Secretary position was also included in the Executive from November 2011.

The structure of the Executive at the time of publication is shown below.



Chief Executive – Ralph Stewart

Ralph Stewart commenced his role as Chief Executive in September 2011.

Ralph has 27 years' experience in insurance and asset management, was Deputy Chair of the Investment Savings and Insurance Association, and a Director of AMP New Zealand, and was most recently CEO of AXA New Zealand for seven years.

He holds a Masters degree in business administration from Manchester University and undergraduate management qualifications from Victoria University of Wellington.

Ralph resigned from the position of Chief Executive in June 2012 but has continued in the role while a replacement is sought.

General Manager, Claims Management – Denise Cosgrove

The General Manager, Claims Management is responsible for all functions in the former Operations group, including management of the branch network, claims processing, contact centres, long-term claims management, the National Serious Injury Service and the investigation unit. This role also incorporates overall management of the clinical directorate, service development and innovation functions as well as the complaints investigator and customer support service.

Denise Cosgrove took up this position in March 2010 following her previous role as General Manager, People and Business Services, which she held from July 2006.

Denise has held senior management positions for the past 18 years, primarily in human resources development but also in operational management, strategy, planning and communications. Before joining ACC, Denise was Assistant Auditor-General, Strategy at the Office of the Auditor-General.

Chief Financial Officer – Mark Dossor

The Chief Financial Officer (CFO) is responsible for Financial and Management Reporting, Investments, Procurement and Assurance Services for ACC. The role is to provide financial leadership and strong stewardship across ACC.

Mark Dossor joined ACC in April 2012 from New Zealand Post, where he was CFO of the Postal Services Group. Before joining New Zealand Post, Mark was the Managing Partner of Endeavour Capital, a New Zealand Private Equity firm, and was the Chairman of the New Zealand Venture Capital Association. Mark is also a member of both the Institute of Chartered Accountants and the Institute of Directors.

General Manager, Actuarial and Risk Services – Herwig Raubal

The General Manager, Actuarial and Risk provides advice to ACC regarding its operational and financial performance in respect of funding policy, levy rates and other financial objectives. The role includes the Risk Management Office, which is responsible for ensuring organisational risks are identified and managed.

Herwig Raubal took up the position of General Manager Actuarial and Risk in February 2012. He has previously held Chief Actuary roles at Tower Limited and Farmers' Mutual Group.

General Manager, Enterprise Planning and Information Technology – Richard Doig

The General Manager, Enterprise Planning and Information Technology is responsible for supporting ACC to achieve its strategic goals through delivering successful projects and programmes, providing quality information management services and ensuring information technology systems and hardware are available to meet staff needs.

Richard Doig took up the General Manager position in January 2012 and was formerly ACC's Chief Information Officer since February 2010.

Richard joined ACC in 2003 as part of the Claims Management group corporate office and has held a number of different roles in ACC spanning operations management, change management, information management and IT. Prior to joining ACC Richard was an officer in the Royal New Zealand Navy.

General Manager, People and Communications – Sid Miller

The General Manager, People and Communications is responsible for supporting ACC's People (including human resources, people capability, and learning and development) and Corporate Communications.

Sid Miller joined ACC in February 2012. He joined ACC from AMP, where he was the New Zealand Integration Director, having previously held the roles of General Manager People, Projects and IT, and General Manager Operations with AXA.

General Manager, Insurance and Prevention Services – John Beaglehole

The General Manager, Insurance and Prevention Services is responsible for delivering flexible, cost-effective and innovative injury insurance products and services. The role also involves creating and managing injury prevention programmes and injury management plans for businesses and the wider community.

John Beaglehole joined ACC in July 2012. John has previously worked in a number of senior roles in the public service including the Ministry of Fisheries, New Zealand Police, the Department of the Prime Minister and Cabinet, and the Crown Law Office. Before becoming a public servant, he worked as a lawyer in New Zealand and New York.

General Manager, Governance, Policy and Research – Kurutia Seymour

The Governance, Legal, Policy and Research group comprises the legislative and operational policy functions for ACC, the programme of research undertaken and funded by ACC, the area responsible for engaging with other key government agencies and supporting the Ministers for ACC and management of ACC's internal and external legal requirements.

Kurutia Seymour has been General Manager, Governance, Policy and Research since July 2012, and has been a part of the Executive since November 2011. He has worked for ACC for 23 years, holding management roles in Policy, Claims Management, Insurance and Prevention Services, and Information Technology before taking up the role of Board and Corporate Secretary in 2009.

Change Director – Phil Riley

The Change Director leads the ACC-wide change programme that supports the execution of the Independent Privacy Report's recommendations. It is a secondment position that reports to the Chief Executive and is accountable through the PoD programme for operational delivery.

Phil Riley took up the secondment role of Change Director in September 2012. Prior to this Phil held the position of National Manager, External Claims Management, where he led the work on ACC's new Employer Centric Services, and spearheaded the successful partnering arrangement with Third Party Administrators and the establishment of the Recover Independence Service.

Company Secretary and General Counsel – Mark Davis

Mark joined the Executive in July 2012. As Company Secretary, Mark manages the relationship with the Board and is responsible for ACC's corporate governance.

Mark has considerable experience across ACC and the financial services industry, having held a number of senior roles in a 13-year career that has spanned New Zealand and Europe.

Executive member departures during 2011–12

Dr Jan White, Chief Executive – 16 September 2011

Katie Sadleir, General Manager, Corporate Services – 10 February 2012

Kathy Spencer, General Manager, Governance, Policy and Research – 30 March 2012

Peter Robertson, General Manager, Scheme Performance (CFO) – 31 March 2012

Dr Keith McLea, General Manager, Insurance and Prevention Services – 13 April 2012.

ACC subsidiary companies

Catalyst Risk Management Limited

Catalyst Risk Management Limited (Catalyst) was a wholly-owned Crown entity subsidiary of ACC established in 1999 to provide a channel for services offered commercially.

The Board resolved to sell Catalyst as a going concern to Employers Mutual Limited on 22 September 2011. The sale of Catalyst was completed on 30 September 2011.

Shamrock Superannuation Limited

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 (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 Scheme's Trust Deed. Shamrock's roles include:

- representing the collective interests of members
- ensuring the Scheme complies with the Trust Deed
- appointing and reviewing the performance of investment managers
- appointing and reviewing the performance of the administration manager
- holding the Scheme's assets in trust.

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

Shamrock Board meetings 2011–12

Shamrock Board	**Meetings held: 4**	
Directors	Meetings Attended	Fees
Susan Weaver (Chair) (I) Appointed 23/05/09	4/4	$25,000
Maree Bennett (E) Appointed 19/09/08	4/4	Nil
Philip Newport (E) Appointed 23/05/09	4/4	Nil
Peter Robertson (E) Appointed 01/07/10 Resigned 30 March 2012	3/3	Nil
E = Executive director I = Independent director		

PART ELEVEN

Financial statements

Consolidated statement of comprehensive income

For the year ended 30 June 2012

$000	Notes	Actual 2012	Budget 2012	Actual 2011
Net levy revenue				
Motor Vehicle Account		1,053,899	1,047,624	985,047
Non–Earners' Account		904,986	938,984	956,748
Earners' Account		1,522,747	1,603,465	1,528,752
Work Account		1,034,419	1,190,227	1,033,927
Treatment Injury Account		348,898	275,823	325,418
Total net levy revenue	3 & 6	**4,864,949**	**5,056,123**	**4,829,892**
Claims incurred				
Claims paid				
Rehabilitation (including treatment) costs				
Vocational rehabilitation		39,463	51,621	42,881
Social rehabilitation		405,814	412,641	408,828
Medical treatment		448,751	485,363	447,852
Hospital treatment		233,642	249,146	232,717
Public health acute services		426,449	428,040	408,620
Dental treatment		21,167	24,578	22,854
Conveyance for treatment		77,841	83,865	79,695
Total rehabilitation (including treatment) costs		**1,653,127**	**1,735,254**	**1,643,447**
Compensation costs				
Income maintenance		758,800	866,370	770,334
Independence allowances		40,965	43,504	33,160
Lump sums		34,627	35,827	31,112
Death benefits		96,328	117,771	101,878
Total compensation costs		**930,720**	**1,063,472**	**936,484**
Miscellaneous claims costs		19,162	12,493	8,289
Total claims paid		**2,603,009**	**2,811,219**	**2,588,220**
Claims handling costs	8	**315,260**	**322,946**	**307,343**
Increase in outstanding claims liability	25	**3,885,960**	**834,091**	**80,577**
Total claims incurred	7	**6,804,229**	**3,968,256**	**2,976,140**
Movement in unexpired risk liability	24	**68,592**	**–**	**(105,287)**
Other operating costs	8	**60,945**	**48,256**	**48,161**
Injury prevention costs	8	**22,971**	**26,736**	**27,861**
Levy collection costs	8	**41,298**	**50,171**	**48,587**
(Deficit) surplus from underwriting activities		**(2,133,086)**	**962,704**	**1,834,430**
Investment income	4 & 6	**1,711,486**	**1,081,573**	**1,754,662**
Investment costs	4 & 8	**53,959**	**46,891**	**43,214**
Other costs	8	**614**	**3,259**	**4,139**
Other income	5 & 6	**2,376**	**6,472**	**6,294**
(Deficit) surplus before tax		**(473,797)**	**2,000,599**	**3,548,033**
Income tax (credit) expense	9	**(17)**	**364**	**(43)**
Net (deficit) surplus after tax		**(473,780)**	**2,000,235**	**3,548,076**
Other comprehensive income				
Revaluation (loss) on land and buildings		**(2,057)**	**–**	**(2,538)**
Other comprehensive income net of tax		**(2,057)**	**–**	**(2,538)**
Total comprehensive income for the year		**(475,837)**	**2,000,235**	**3,545,538**

The accompanying notes form part of these financial statements.

Consolidated statement of changes in reserves (equity)

For the year ended 30 June 2012

$000	Notes	Actual Total	Actual Motor Vehicle Account	Actual Non-Earners' Account	Actual Earners' Account	Actual Work Account	Actual Treatment Injury Account	Budget Total
Total Account reserves								
Balance at the beginning of the year (deficit)		**(6,711,641)**	**(2,513,531)**	**(2,652,523)**	**(49,094)**	**(288,011)**	**(1,208,482)**	**(6,533,851)**
Net (deficit) surplus for the year		(473,780)	(104,725)	(716,498)	388,212	316,354	(357,123)	1,999,383
Other comprehensive income		–	–	–	–	–	–	–
Total comprehensive income for the year		**(473,780)**	**(104,725)**	**(716,498)**	**388,212**	**316,354**	**(357,123)**	**1,999,383**
Balance at the end of the year (deficit)		**(7,185,421)**	**(2,618,256)**	**(3,369,021)**	**339,118**	**28,343**	**(1,565,605)**	**(4,534,468)**
Subsidiaries reserves								
Balance at the beginning of the year		**–**	**–**	**–**	**–**	**–**	**–**	**1,251**
Net surplus for the year		–	–	–	–	–	–	852
Other comprehensive income		–	–	–	–	–	–	–
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**–**	**–**	**852**
Balance at the end of the year		**–**	**–**	**–**	**–**	**–**	**–**	**2,103**
Revaluation reserves								
Balance at the beginning of the year		**5,142**	**–**	**–**	**–**	**–**	**–**	**7,681**
Net surplus for the year		–	–	–	–	–	–	–
Other comprehensive income	27	(2,057)	–	–	–	–	–	–
Total comprehensive income for the year		**(2,057)**	**–**	**–**	**–**	**–**	**–**	**–**
Balance at the end of the year		**3,085**	**–**	**–**	**–**	**–**	**–**	**7,681**
Total reserves								
Balance at the beginning of the year (deficit)		**(6,706,499)**	**(2,513,531)**	**(2,652,523)**	**(49,094)**	**(288,011)**	**(1,208,482)**	**(6,524,919)**
Net (deficit) surplus for the year		(473,780)	(104,725)	(716,498)	388,212	316,354	(357,123)	2,000,235
Other comprehensive income	27	(2,057)	–	–	–	–	–	–
Total comprehensive income for the year		**(475,837)**	**(104,725)**	**(716,498)**	**388,212**	**316,354**	**(357,123)**	**2,000,235**
Balance at the end of the year (deficit)		**(7,182,336)**	**(2,618,256)**	**(3,369,021)**	**339,118**	**28,343**	**(1,565,605)**	**(4,524,684)**

The accompanying notes form part of these financial statements.

Consolidated statement of changes in reserves (equity)

For the year ended 30 June 2011

$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)		**(10,261,988)**	**(3,655,179)**	**(2,943,706)**	**(890,850)**	**(1,367,990)**	**(1,404,263)**	**(10,574,019)**
Net surplus for the year		3,550,347	1,141,648	291,183	841,756	1,079,979	195,781	966,534
Other comprehensive income		–	–	–	–	–	–	–
Total comprehensive income for the year		**3,550,347**	**1,141,648**	**291,183**	**841,756**	**1,079,979**	**195,781**	**966,534**
Balance at the end of the year (deficit)		**(6,711,641)**	**(2,513,531)**	**(2,652,523)**	**(49,094)**	**(288,011)**	**(1,208,482)**	**(9,607,485)**
Subsidiaries reserves								
Balance at the beginning of the year		**2,271**	–	–	–	–	–	**2,908**
Net (deficit) surplus for the year		(2,271)	–	–	–	–	–	1,881
Other comprehensive income		–	–	–	–	–	–	–
Total comprehensive income for the year		**(2,271)**	–	–	–	–	–	**1,881**
Balance at the end of the year		–	–	–	–	–	–	**4,789**
Revaluation reserves								
Balance at the beginning of the year		**7,680**	–	–	–	–	–	**9,054**
Net surplus for the year		–	–	–	–	–	–	–
Other comprehensive income	27	(2,538)	–	–	–	–	–	–
Total comprehensive income for the year		**(2,538)**	**–**	**–**	**–**	**–**	**–**	**–**
Balance at the end of the year		**5,142**	**–**	**–**	**–**	**–**	**–**	**9,054**
Total reserves								
Balance at the beginning of the year (deficit)		**(10,252,037)**	**(3,655,179)**	**(2,943,706)**	**(890,850)**	**(1,367,990)**	**(1,404,263)**	**(10,562,057)**
Net surplus for the year		3,548,076	1,141,648	291,183	841,756	1,079,979	195,781	968,415
Other comprehensive income	27	(2,538)	–	–	–	–	–	–
Total comprehensive income for the year		**3,545,538**	**1,141,648**	**291,183**	**841,756**	**1,079,979**	**195,781**	**968,415**
Balance at the end of the year (deficit)		**(6,706,499)**	**(2,513,531)**	**(2,652,523)**	**(49,094)**	**(288,011)**	**(1,208,482)**	**(9,593,642)**

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 2012

$000	Notes	Actual 2012	Budget 2012	Actual 2011
Net levy revenue				
Levy revenue from motor licensing		747,043	751,970	682,318
Levy revenue from petrol levy		302,562	293,535	302,729
Motorcycle safety levy		4,294	2,119	–
Total net levy revenue		**1,053,899**	**1,047,624**	**985,047**
Claims incurred				
Claims paid				
Rehabilitation (including treatment) costs				
Vocational rehabilitation		4,739	6,141	4,803
Social rehabilitation		123,606	125,629	121,135
Medical treatment		17,525	19,082	16,032
Hospital treatment		14,946	17,381	15,689
Public health acute services		48,998	50,640	48,007
Dental treatment		939	1,267	1,161
Conveyance for treatment		12,548	13,666	13,084
Total rehabilitation (including treatment) costs		**223,301**	**233,806**	**219,911**
Compensation costs				
Income maintenance		119,451	134,663	122,939
Independence allowances		5,825	6,823	4,193
Lump sums		7,120	7,040	5,712
Death benefits		32,059	38,371	33,538
Total compensation costs		**164,455**	**186,897**	**166,382**
Miscellaneous claims costs		8,412	5,796	1,331
Total claims paid		**396,168**	**426,499**	**387,624**
Claims handling costs		**34,584**	**33,909**	**32,886**
Increase (decrease) in outstanding claims liability	25	**1,132,485**	**189,564**	**(27,302)**
Total claims incurred		**1,563,237**	**649,972**	**393,208**
Movement in unexpired risk liability	24	–	–	**(105,287)**
Other operating costs		**4,418**	**8,831**	**9,006**
Injury prevention costs		**5,186**	**4,919**	**5,465**
Levy collection costs		**5,433**	**13,747**	**13,603**
(Deficit) surplus from underwriting activities		**(524,375)**	**370,155**	**669,052**
Investment income		**434,518**	**301,416**	**483,874**
Investment costs		**15,077**	**13,270**	**11,946**
Other income		**209**	**375**	**668**
Net (deficit) surplus		**(104,725)**	**658,676**	**1,141,648**
Other comprehensive income		–	–	–
Total comprehensive income for the year		**(104,725)**	**658,676**	**1,141,648**
Account reserve – opening balance (deficit)		**(2,513,531)**	**(2,470,108)**	**(3,655,179)**
Net (deficit) surplus and total comprehensive income		**(104,725)**	**658,676**	**1,141,648**
Account reserve – closing balance (deficit)		**(2,618,256)**	**(1,811,432)**	**(2,513,531)**

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 2012

$000	Notes	Actual 2012	Budget 2012	Actual 2011
Net levy revenue				
Levy revenue appropriated by Parliament		1,096,254	1,117,004	1,187,776
Less funding of Treatment Injury Account		(191,268)	(178,020)	(231,028)
Total net levy revenue		**904,986**	**938,984**	**956,748**
Claims incurred				
Claims paid				
Rehabilitation (including treatment) costs				
Vocational rehabilitation		540	805	617
Social rehabilitation		133,339	132,913	125,816
Medical treatment		184,742	191,628	177,912
Hospital treatment		56,932	58,233	55,297
Public health acute services		264,773	266,952	254,512
Dental treatment		11,165	12,452	11,700
Conveyance for treatment		43,006	45,979	43,475
Total rehabilitation (including treatment) costs		**694,497**	**708,962**	**669,329**
Compensation costs				
Income maintenance		10,399	8,704	6,507
Independence allowances		19,706	19,374	18,430
Lump sums		5,726	6,427	5,033
Death benefits		5,496	7,538	6,450
Total compensation costs		**41,327**	**42,043**	**36,420**
Miscellaneous claims costs		1,374	840	1,476
Total claims paid		**737,198**	**751,845**	**707,225**
Claims handling costs		**66,015**	**48,765**	**47,331**
Increase in outstanding claims liability	25	**971,020**	**157,264**	**111,551**
Total claims incurred		**1,774,233**	**957,874**	**866,107**
Other operating costs		**2,749**	**2,895**	**3,227**
Injury prevention costs		**3,888**	**4,305**	**4,880**
Collection costs		**22**	**–**	**–**
(Deficit) surplus from underwriting activities		**(875,906)**	**(26,090)**	**82,534**
Investment income		**165,870**	**133,867**	**213,435**
Investment costs		**6,630**	**5,768**	**5,301**
Other income		**168**	**153**	**515**
Net (deficit) surplus		**(716,498)**	**102,162**	**291,183**
Other comprehensive income		**–**	**–**	**–**
Total comprehensive income for the year		**(716,498)**	**102,162**	**291,183**
Account reserve – opening balance (deficit)		**(2,652,523)**	**(2,666,033)**	**(2,943,706)**
Net (deficit) surplus and total comprehensive income		**(716,498)**	**102,162**	**291,183**
Account reserve – closing balance (deficit)		**(3,369,021)**	**(2,563,871)**	**(2,652,523)**

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 2012

$000	Notes	Actual 2012	Budget 2012	Actual 2011
Net levy revenue				
Levy revenue		1,680,377	1,701,268	1,623,142
Less funding of Treatment Injury Account		(157,630)	(97,803)	(94,390)
Total net levy revenue		**1,522,747**	**1,603,465**	**1,528,752**
Claims incurred				
Claims paid				
Rehabilitation (including treatment) costs				
Vocational rehabilitation		19,767	26,160	21,374
Social rehabilitation		50,828	49,486	48,164
Medical treatment		175,604	186,413	172,713
Hospital treatment		105,887	112,001	105,354
Public health acute services		84,523	83,916	80,334
Dental treatment		6,304	7,430	6,790
Conveyance for treatment		15,687	16,896	16,289
Total rehabilitation (including treatment) costs		**458,600**	**482,302**	**451,018**
Compensation costs				
Income maintenance		304,339	348,624	298,233
Independence allowances		7,207	7,499	4,539
Lump sums		5,284	5,826	5,045
Death benefits		33,344	41,866	34,119
Total compensation costs		**350,174**	**403,815**	**341,936**
Miscellaneous claims costs		2,691	1,537	1,581
Total claims paid		**811,465**	**887,654**	**794,535**
Claims handling costs		**117,245**	**134,023**	**125,703**
Increase in outstanding claims liability	25	**619,276**	**301,903**	**160,987**
Total claims incurred		**1,547,986**	**1,323,580**	**1,081,225**
Movement in unexpired risk liability	24	**11,535**	–	–
Other operating costs		**8,807**	**12,884**	**11,848**
Injury prevention costs		**5,225**	**4,678**	**4,347**
Levy collection costs		**17,901**	**18,814**	**18,241**
(Deficit) surplus from underwriting activities		**(68,707)**	**243,509**	**413,091**
Investment income		**470,280**	**282,857**	**438,283**
Investment costs		**14,042**	**12,098**	**11,342**
Other income		**681**	**770**	**1,724**
Net surplus		**388,212**	**515,038**	**841,756**
Other comprehensive income		–	–	–
Total comprehensive income for the year		**388,212**	**515,038**	**841,756**
Account reserve – opening balance (deficit)		**(49,094)**	**(122,406)**	**(890,850)**
Net surplus and total comprehensive income		**388,212**	**515,038**	**841,756**
Account reserve – closing balance (deficit)		**339,118**	**392,632**	**(49,094)**

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 2012

$000	Notes	Actual 2012	Budget 2012	Actual 2011
Net levy revenue				
Levy revenue		1,034,419	1,190,227	1,033,927
Total net levy revenue		**1,034,419**	**1,190,227**	**1,033,927**
Claims incurred				
Claims paid				
Rehabilitation (including treatment) costs				
Vocational rehabilitation		13,809	17,738	15,400
Social rehabilitation		57,520	68,360	79,080
Medical treatment		66,103	83,333	77,655
Hospital treatment		44,815	49,488	45,900
Public health acute services		26,363	25,224	24,390
Dental treatment		2,637	3,323	3,092
Conveyance for treatment		6,071	6,745	6,328
Total rehabilitation (including treatment) costs		**217,318**	**254,211**	**251,845**
Compensation costs				
Income maintenance		291,219	346,677	318,860
Independence allowances		6,257	7,419	4,535
Lump sums		9,912	11,180	10,456
Death benefits		21,554	25,710	24,240
Total compensation costs		**328,942**	**390,986**	**358,091**
Miscellaneous claims costs		5,715	3,204	3,050
Total claims paid		**551,975**	**648,401**	**612,986**
Claims handling costs		**82,630**	**94,623**	**90,051**
Increase (decrease) in outstanding claims liability	25	**471,565**	**(681)**	**(341,401)**
Total claims incurred		**1,106,170**	**742,343**	**361,636**
Movement in unexpired risk liability	24	**57,057**	**–**	**–**
Other operating costs		**44,545**	**22,777**	**23,069**
Injury prevention costs		**8,672**	**12,299**	**12,600**
Levy collection costs		**17,939**	**17,610**	**16,743**
(Deficit) surplus from underwriting activities		**(199,964)**	**395,198**	**619,879**
Investment income		**529,315**	**266,032**	**469,701**
Investment costs		**13,682**	**12,051**	**11,038**
Other income		**685**	**661**	**1,437**
Net surplus		**316,354**	**649,840**	**1,079,979**
Other comprehensive income		**–**	**–**	**–**
Total comprehensive income for the year		**316,354**	**649,840**	**1,079,979**
Account reserve – opening balance (deficit)		**(288,011)**	**(119,579)**	**(1,367,990)**
Net surplus and total comprehensive income		**316,354**	**649,840**	**1,079,979**
Account reserve – closing balance (deficit)		**28,343**	**530,261**	**(288,011)**
Reserve for future gradual process claims	26	**232,600**	**202,500**	**80,300**
Reserve for all other claims		**(204,257)**	**327,761**	**(368,311)**
Account reserve – (deficit)		**28,343**	**530,261**	**(288,011)**

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 2012

$000	Notes	Actual 2012	Budget 2012	Actual 2011
Net levy revenue				
Levy revenue funded by:				
Non-Earners' Account		191,268	178,020	231,028
Earners' Account		157,630	97,803	94,390
Total net levy revenue		**348,898**	**275,823**	**325,418**
Claims incurred				
Claims paid				
Rehabilitation (including treatment) costs				
Vocational rehabilitation		608	777	687
Social rehabilitation		40,521	36,253	34,633
Medical treatment		4,777	4,907	3,540
Hospital treatment		11,062	12,043	10,477
Public health acute services		1,792	1,308	1,377
Dental treatment		122	106	111
Conveyance for treatment		529	579	519
Total rehabilitation (including treatment) costs		**59,411**	**55,973**	**51,344**
Compensation costs				
Income maintenance		33,392	27,702	23,795
Independence allowances		1,970	2,389	1,463
Lump sums		6,585	5,354	4,866
Death benefits		3,875	4,286	3,531
Total compensation costs		**45,822**	**39,731**	**33,655**
Miscellaneous claims costs		970	1,116	851
Total claims paid		**106,203**	**96,820**	**85,850**
Claims handling costs		**14,786**	**11,626**	**11,372**
Increase in outstanding claims liability	25	**691,614**	**186,041**	**176,742**
Total claims incurred		**812,603**	**294,487**	**273,964**
Other operating costs		**426**	**869**	**1,011**
Injury prevention costs		**–**	**535**	**569**
Collection costs		**3**	**–**	**–**
(Deficit) surplus from underwriting activities		**(464,134)**	**(20,068)**	**49,874**
Investment income		**111,503**	**97,401**	**149,369**
Investment costs		**4,528**	**3,704**	**3,587**
Other income		**36**	**38**	**125**
Net (deficit) surplus		**(357,123)**	**73,667**	**195,781**
Other comprehensive income		**–**	**–**	**–**
Total comprehensive income for the year		**(357,123)**	**73,667**	**195,781**
Account reserve – opening balance (deficit)		**(1,208,482)**	**(1,155,725)**	**(1,404,263)**
Net (deficit) surplus and total comprehensive income		**(357,123)**	**73,667**	**195,781**
Account reserve – closing balance (deficit)		**(1,565,605)**	**(1,082,058)**	**(1,208,482)**

The accompanying notes form part of these financial statements.

Consolidated statement of financial position

As at 30 June 2012

$000	Notes	Actual 2012	Budget 2012	Actual 2011
Account reserves				
Motor Vehicle Account		(2,618,256)	(1,811,432)	(2,513,531)
Non-Earners' Account		(3,369,021)	(2,563,871)	(2,652,523)
Earners' Account		339,118	392,632	(49,094)
Work Account		28,343	530,261	(288,011)
Treatment Injury Account		(1,565,605)	(1,082,058)	(1,208,482)
Total Account reserves		**(7,185,421)**	**(4,534,468)**	**(6,711,641)**
Subsidiaries reserves		–	2,103	–
Revaluation reserves	27	3,085	7,681	5,142
Total reserves (deficit)		**(7,182,336)**	**(4,524,684)**	**(6,706,499)**
Represented by:				
Assets				
Cash and cash equivalents	11	240,905	556,681	606,659
Income tax refund		–	–	22
Receivables	12	380,320	519,998	277,886
Accrued levy revenue	13	2,589,385	3,193,846	2,907,944
Investments	14	21,752,973	19,481,356	17,577,688
Derivative financial instruments	15	382,483	–	208,001
Investment properties	17	27,200	33,650	31,050
Property, plant and equipment	19	51,532	60,311	62,526
Intangible assets	20	117,896	167,782	132,743
Deferred tax asset	10	–	–	137
Total assets		**25,542,694**	**24,013,624**	**21,804,656**
Less liabilities				
Derivative financial instruments	15	37,324	–	8,662
Payables and accrued liabilities	21	1,972,031	851,219	1,516,595
Provisions	22	67,244	–	46,939
Unearned levy liability	23	2,183,444	2,597,750	2,428,524
Unexpired risk liability	24	68,592	–	–
Outstanding claims liability	25	28,396,395	25,089,339	24,510,435
Total liabilities		**32,725,030**	**28,538,308**	**28,511,155**
Net liabilities		**(7,182,336)**	**(4,524,684)**	**(6,706,499)**

For and on behalf of the Board, which authorised the issue of these financial statements on 3 October 2012:

Paula Rebstock
Board chair
Date: 3 October 2012

John Meehan
Board member
Date: 3 October 2012

The accompanying notes form part of these financial statements.

Consolidated statement of cash flows

For the year ended 30 June 2012

$000	Notes	Actual 2012	Budget 2012	Actual 2011
Cash flows from operating activities				
Cash was provided from:				
Levy revenue		4,876,890	4,979,227	4,925,858
Interest		636,848	384,122	704,010
Dividends		225,289	139,288	176,139
Other income		5,986	6,526	7,601
Taxation refund		132	–	–
		5,745,145	5,509,163	5,813,608
Cash was applied to:				
Payments to injured persons, suppliers and employees		3,059,066	3,255,993	2,998,793
Goods and services tax (net)		(2,383)	3,088	(9,034)
Taxation paid		–	–	201
		3,056,683	3,259,081	2,989,960
Net cash movement from operating activities	28	**2,688,462**	**2,250,082**	**2,823,648**
Cash flows from investing activities				
Cash was provided from:				
Proceeds from sale of investments		35,301,976	30,000,000	20,685,337
Proceeds from sale of subsidiary		815	–	–
Proceeds from sale of property, plant and equipment		1,045	–	239
Proceeds from sale of intangible assets		–	–	6
		35,303,836	**30,000,000**	**20,685,582**
Cash was applied to:				
Payment for investments		38,317,402	32,173,613	23,364,111
Disposal of subsidiary		278	–	565
Payment for property, plant and equipment		5,381	17,289	28,443
Payment for intangible assets		34,991	59,722	36,859
		38,358,052	**32,250,624**	**23,429,978**
Net cash movement from investing activities		**(3,054,216)**	**(2,250,624)**	**(2,744,396)**
Net (decrease) increase in cash and cash equivalents		**(365,754)**	**(542)**	**79,252**
Cash and cash equivalents – opening balance		**606,659**	**557,223**	**527,407**
Cash and cash equivalents – closing balance		**240,905**	**556,681**	**606,659**

The accompanying notes form part of these financial statements.

Statement of commitments

As at 30 June 2012

$000	Consolidated Actual 2012	Actual 2011
Capital commitments approved and contracted	**52,851**	**215,276**
Non-cancellable operating lease commitments:		
Not later than one year	14,764	17,330
Later than one year but not greater than two years	11,260	13,907
Later than two years but not greater than five years	30,665	31,697
Later than five years	61,400	71,209
Total non-cancellable operating lease commitments	**118,089**	**134,143**
Total commitments	**170,940**	**349,419**

Non-cancellable operating lease commitments

The group 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.

In previous years the amounts disclosed as future commitments are based on lease payments up to the final expiry date of the lease. The comparative numbers for 2011 have therefore been amended to be comparable with the current year.

Capital commitments

The majority of these are investment-related commitments.

At 30 June 2012 ACC entered into sub-underwriting agreements to purchase up to A$2.0 million of equity issuance (2011: commitments of A$1.2 million settled 8 July 2011).

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 $126.1 million (2011: $100.1 million) in these funds. As at 30 June 2012 ACC had undrawn commitments to these funds totalling $50.2 million (2011: $30.7 million). The private equity portfolio is split between New Zealand, Australian and Overseas equities and Overseas debt securities.

At 30 June 2011 capital commitments of $75.0 million existed for the purchase of convertible notes which was settled on 9 September 2011. Further capital commitments of $100.0 million existed at 30 June 2011 for the purchase of a fixed income bond which was settled on 15 July 2011.

Statement of contingent liabilities and assets

As at 30 June 2012

The estimated contingent liabilities are as follows:

$000	Consolidated Actual 2012	Consolidated Actual 2011
Legal proceedings	97	269
Total contingent liabilities	**97**	**269**

There are several legal actions against ACC in existence, arising in the main from challenges to operational decisions made by ACC. No accrual has been made for these contingent liabilities as ACC will be vigorously defending these claims. The ACC Board believes the resolution of outstanding appeals will not have any material effect on the financial statements of ACC.

The estimated contingent assets are as follows:

$000	Consolidated Actual 2012	Consolidated Actual 2011
Legal proceedings	867	–
GST claim	17,000	17,000
Earthquake claim	5,000	–
Total contingent assets	**22,867**	**17,000**

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

On 11 July 2011 Inland Revenue agreed in principle that ACC may claim an output tax deduction for payments made to clients, pursuant to any contract of insurance, under section 20(3)(d) of the Goods and Services Tax Act 1985. A contingent asset of $17.0 million exists for the amount of the GST output tax deduction that ACC intends to claim.

A contingent asset also exists, estimated to be $5.0 million, in relation to the insurance claims for the Christchurch earthquake on 22 February 2011.

Notes to the financial statements

For the year ended 30 June 2012

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.

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

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

(c) Basis of preparation

The financial statements are prepared on the basis of historical cost unless the application of fair value measurements are 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

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

Reference	Title	Application date of standard	Impact on group financial statements	Application date for group
NZ IAS 12	Amendments to NZ IAS 12 Income Taxes – Deferred Tax: Recovery of Underlying Assets	1 January 2012	The group does not expect these amendments to impact the financial statements of the group.	1 July 2012
NZ IFRS 7	Amendments to NZ IFRS 7 Financial Instruments: Disclosures – Transition Disclosures	1 January 2013	Disclosure only.	1 July 2013
NZ IFRS 9 (2010)	Financial Instruments	1 January 2015	This will have an impact on the classification and measurement of the financial assets and financial liabilities of the group.	1 July 2015

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

The standards and interpretations noted above were issued prior to June 2011. Public Benefit Entities (including ACC) have been forbidden from adopting any new or revised standards and interpretations issued since June 2011.

The External Reporting Board is introducing a new suite of accounting standards for Public Benefit Entities that will be applicable to public sector entities for financial years beginning on or after 1 July 2014. The External Reporting Board has a project underway to determine whether there are any Public Benefit Entities, which may include ACC, for which compliance with New Zealand equivalents to International Financial Reporting Standards would provide more useful information to the majority of their external users than would compliance with the new Public Benefit Entity Standards.

A final decision by the External Reporting Board on this issue is expected by the end of 2012.

(d) Consolidation of subsidiaries

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

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

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

ACC's investment in its subsidiary is carried at cost less impairment losses in ACC's financial statements. The subsidiary is detailed in Note 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 cost of rehabilitation and compensation benefits for injuries that occurred prior to 1 July 1999 and in addition for the Work Account the potential liability as at 30 June 2009 in respect of future claims for cover for personal injury caused by work-related gradual process, disease, or infection before 1 July 1999.

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

(f) Source and application of levy revenue

The AC Act requires ACC to record levy revenue by individual Accounts. 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 for 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, 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 an arrangement.

(i) ACC as a lessee

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

(ii) ACC as a lessor

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

(j) Allocation of indirect income and expenditure

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

(i) Investment income

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

(ii) Administration costs

Administration costs which comprise claims handling, levy collection, injury prevention, investment and other operating costs are allocated based on the operating activities undertaken for each Account.

(k) Income tax

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

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

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

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

(l) Cash and cash equivalents

Cash and cash equivalents are considered to be cash on hand, current accounts with banks, deposits held on call with banks, and other short-term highly liquid investments with original maturities of three months or less, net of outstanding bank overdrafts. The carrying values of these items are equivalent to their fair values. Cash and cash equivalent 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 ab). Due to the short-term nature of these assets the recoverable value, that is, 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 cost being the fair value of consideration given. All transaction costs and management fees for ACC's investment assets are expensed through the statement of comprehensive income. All investments are subsequently carried at fair value. Any changes in fair value are recognised in surplus or deficit in the period in which they arise.

Fair value for investment assets is determined as follows:

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

(o) Derivative financial instruments

ACC uses various derivative financial instruments such as foreign currency contracts, interest rate swaps and futures to manage its exposure to movements in foreign currency exchange rates, interest rates and equity markets. Derivatives may also be used temporarily in lieu of purchasing bonds, equities or currency. The use of financial instruments is covered by investment policies 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 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 or 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 Investments 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 in NZ IAS 31 Interests in Joint Ventures, which allows these investments to be excluded from its scope where those investments are designated, upon initial recognition, as at fair value through profit or loss and accounted for in accordance with NZ IAS 39 Financial Instruments: Recognition and Measurement, with changes in fair value recognised in surplus or deficit in the period of the change.

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

(r) Investment properties

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

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

(s) Foreign currencies

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

Foreign currency transactions are accounted for at the exchange rate 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.

(t) 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.*

(u) 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.

(v) Impairment of assets

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

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

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

(w) Employee benefits

Short-term benefits

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

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

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

Long-term benefits

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

Defined contribution plan

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

(x) 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.

(y) Payables and accrued liabilities

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

(z) 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.

(aa) 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 2012, plus a risk margin to ensure the accrued liability is sufficient to meet all the costs of future claim payments 75% of the time.

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

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

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

(ab) 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 which 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 approximate fair value
- investments (see Note n)
- derivative financial instruments (see Note o)
- investment properties (see Note r)
- receivables (see Note m).

(ac) Budget figures

The budget figures in the financial statements are those provided in the ACC's *Statement of Intent 2011–2014*. Section 154(3) of the Crown Entities Act 2004 requires this to be provided for comparison with the actual financial statements. The *Statement of Intent 2011–2014* was prepared based on the claims valuation as at 31 December 2010 using discount rates at 31 March 2011. 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.

(ad) Changes to accounting policies

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

New standards and interpretations applying for the first time

NZ IAS 24 RELATED PARTY DISCLOSURES (REVISED 2009)

The group has early adopted NZ IAS 24 (Revised 2009) from 1 July 2009.

FRS-44 NEW ZEALAND ADDITIONAL DISCLOSURES AND AMENDMENTS TO NZ IFRS TO HARMONISE WITH IFRS AND AUSTRALIAN ACCOUNTING STANDARDS (HARMONISATION AMENDMENTS)

These were issued in May 2011 with the purpose of harmonising Australian and New Zealand accounting standards with source IFRS and to eliminate many of the differences between accounting standards in each jurisdiction. The effect of adopting these is a minor change in the disclosure of fees paid to the auditor, which requires separate disclosure of fees paid in relation to audit/review of financial statements and for all other services (with a description of the nature of the services).

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

- Improvements to NZ IFRSs (2010)
- Amendments to NZ IFRIC 14 Prepayments of a Minimum Funding Requirement
- Amendments to NZ IAS 26 Accounting and Reporting by Retirement Benefit Plans
- Amendments to NZ IFRS 1 First Time Adoption of New Zealand Equivalents to International Financial Reporting Standards
- Amendments to NZ IFRS 7 Financial Instruments: Disclosures.

(ae) Non-current assets held for sale

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

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

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

(af) Financial statements of the parent

As at 30 June 2012 and 2011 separate parent and group 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 (incurred but not yet reported) claims.

The estimated liability is on a 'best estimate' basis. This means there is no deliberate over- or under- statement of any component of the liability. 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 of possible changes that may affect trends in the future.

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

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

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

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

The general sources of uncertainty include:

- actual future claim closure rates differ from those expected due to unanticipated changes to Scheme utilisation rates associated with prior injuries
- actual future claim costs differ from those expected due to unanticipated inflationary trends and claims duration
- 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 which 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 an injury. In particular, the cost of personal care services, whether it be home- or residential-based care. This may involve anything from helping with daily duties to providing nursing care services. The number of hours per day, type of services required, provider type, and average costs per hour are key assumptions that need to be projected decades into the future. The estimate carries around it a wider range of uncertainty due to the length of the projection period and the variation of disability and/or demonstrated independent participation by the client
- in the years through to early 2009, there have been significant increases in Scheme utilisation from growth in new claims volume and longer claims duration. Over the past three years, there have been reductions in claims volume and duration.

The improvement in claims duration is a result of changes made in claims management and operational initiatives implemented which have improved rehabilitation rates. The assumptions for claims volume and duration are subject to a higher level of uncertainty given the recent change in trend

- the costs of elective surgery continue to grow at a rate well above Labour Cost Index (LCI) and Consumer Price Index (CPI); it is uncertain whether this trend will continue. A portion of this benefit (for example, implant purchases) is subject to currency exchange risk which as of late has been quite volatile.

Discounting methodology

Estimated future claim payments are adjusted in line with expectations of future inflation. These inflated cash flows are then discounted using a risk-free rate that is based on the yield curves of New Zealand government bond rates. The longest term of a current New Zealand government bond is 11 years. Discount rates are smoothed at a maximum increment of 0.15% per annum or a five-year period (whichever is the longer) to eventually attain a long-term risk-free discount rate of 6.00%. 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 Note 24 and 25.

Gradual process claims

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

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

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 OCL.

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 amendments to the AC Act which 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 OCL 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 Note 12 and 13.

(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 17.

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

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

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

At the balance date ACC recorded $159.6 million (2011: $227.4 million) of asset-backed securities where the fair value was determined by the valuation technique above. Refer to Note 16(e).

(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 2012 ACC is in a negative equity position of $7.2 billion (2011: $6.7 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, Earners' and Work Account by 2019.

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

3. Net levy revenue

$000	Consolidated 2012	2011
Levy revenue	4,885,834	4,864,549
(Less):		
Levy debts written off	(7,201)	(11,091)
Fair value movement of levy debtors	(13,684)	(23,566)
Total net levy revenue	**4,864,949**	**4,829,892**

4. Net investment income

$000	Consolidated 2012	2011
Investment income		
Rental income from investment properties	**4,780**	**5,209**
Financial assets at fair value through profit or loss (designated upon initial recognition)		
Dividend income	231,523	176,999
Interest income	545,502	490,008
Net realised and unrealised gains (losses) on foreign exchange	(80,238)	(278,142)
Other net realised and unrealised gains (losses)	630,511	1,189,249
	1,327,298	**1,578,114**
Financial assets and financial liabilities at fair value through profit or loss (held for trading purposes)		
Interest income	104,422	216,078
Net realised and unrealised gains (losses) on foreign exchange	8,511	(75,471)
Other net realised and unrealised gains	266,475	30,732
	379,408	**171,339**
Total investment income	**1,711,486**	**1,754,662**
Investment costs		
Investment costs	52,225	41,787
Direct expenses from investment properties generating income	1,734	1,427
Total investment costs	**53,959**	**43,214**
Total net investment income	**1,657,527**	**1,711,448**

Included in investment costs is $15.7 million (2011: $13.2 million) for brokerage fees on equity investments.

Investment income is net of foreign withholding tax of $8.0 million (2011: $5.6 million).

5. Other income

$000	Consolidated 2012	2011
Sales from rendering of services by subsidiaries	1,449	4,871
Other income	927	1,423
Total other income	**2,376**	**6,294**

6. Total income – Gross

$000	Consolidated 2012	2011
Levy revenue	4,885,834	4,864,549
Investment income	1,711,486	1,754,662
Other income	2,376	6,294
Total income	**6,599,696**	**6,625,505**

7. Claims incurred

	Consolidated					
	2012			2011		
$000	Current year	Prior years	Total	Current year	Prior years	Total
Undiscounted	7,747,870	(6,789,323)	958,547	8,380,309	347,944	8,728,253
Discount movement	(4,143,830)	9,989,512	5,845,682	(4,857,194)	(894,919)	(5,752,113)
Total claims incurred	**3,604,040**	**3,200,189**	**6,804,229**	**3,523,115**	**(546,975)**	**2,976,140**

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

CoverPlus Extra policies

There were payments of $5.2 million (2011: $5.3 million) relating to work-related injuries to clients who have purchased weekly compensation under CoverPlus Extra policies from the Work Account during the year. 39,985 (2011: 38,560) CoverPlus Extra policies were purchased during the year.

Non-work injuries payments of $8.9 million (2011: $8.5 million) were paid from the Earners' and Motor Vehicle Accounts.

8. Analysis of expenses

(a) Expenses by function

$000	Consolidated 2012	2011
Claims handling costs	315,260	307,343
Other operating costs	60,945	48,161
Injury prevention costs	22,971	27,861
Levy collection costs	41,298	48,587
Investment costs	53,959	43,214
Other costs	614	4,139
Total expenses	**495,047**	**479,305**

(b) Included in table (a) are:

$000	Consolidated 2012	2011
Fees paid to auditors:		
– audit fees	612	574
– other services	51	120
Board members' and directors' fees	325	371
Rental of office premises	18,950	15,017
Depreciation:		
– Buildings	578	989
– Leasehold improvements	3,684	2,863
– Furniture, fittings and equipment	1,070	1,100
– Computer equipment	6,777	11,088
– Motor vehicles	786	685
Property, plant and equipment write-offs:		
– Computer equipment	1,987	279
– Furniture, fittings and equipment	(2)	44
– Leasehold improvements	292	259
Property, plant and equipment (gain) loss on disposal:		
– Freehold improvements	4	–
– Leasehold improvements	297	285
– Furniture, fittings and equipment	1	91
– Computer equipment	49	76
– Motor vehicles	(797)	–
Revaluation expense		
– Buildings	277	–
Amortisation of intangible assets	36,804	32,887
Write-offs of intangible assets	11,474	2,169
Loss on sale of investment in subsidiary (refer to Note 18)	–	–
(Gain) loss on discontinued operation	(467)	2,673
(Reversal of) impairment loss in investment in subsidiary (refer to Note 18)	(436)	436
Operating lease equipment rentals	11	23
Bad debts written off – non-levy related	22	7
Change in provision for doubtful debts – non-levy related	(53)	(434)
Restructuring costs	660	1,236
Personnel expenditure	223,895	229,291

Note:

Audit fees in 2011 for the group are paid for by ACC. Fees paid to auditors for other services include fees for assurance related and tax services.

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 $10.6 million (2011: $10.1 million).

Total expenses were allocated to Accounts for 2012 using activity-based costing methodology. During the year the model was reviewed and redeveloped. This has resulted in a simplification of the allocation model and did not have a material effect on the allocation of total expenses to Accounts.

9. Income tax (credit) expense

(a) Recognised in statement of comprehensive income

$000	Consolidated 2012	2011
Current tax expense		
Current year	–	171
Adjustments for prior years	(20)	(6)
	(20)	**165**
Deferred tax expense		
Origination and reversal of temporary differences	3	(186)
Reduction in tax rate	–	(22)
	3	**(208)**
Total income tax (credit) in statement of comprehensive income	**(17)**	**(43)**

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

$000	Consolidated 2012	2011
(Deficit) surplus before tax	**(473,797)**	**3,548,033**
Tax at the statutory rate of 28% (2011 – 30%)	(132,663)	1,064,410
Tax effect of permanent differences:		
ACC net deficit (surplus) not subject to income tax	132,658	(1,065,104)
Other non-deductible items	5	648
	–	**(46)**
Effect on deferred tax balances due to change in income tax rate from 30% to 28% (effective 2011/12 income year)	–	(22)
Adjustments for prior years	(20)	(6)
Others	3	31
	(17)	**(43)**

10. Deferred tax assets and liabilities

$000	Consolidated 2012	2011
Source of deferred tax assets:		
Property, plant and equipment	–	–
Employee benefits	–	–
Provisions	–	–
Tax value of loss carry-forwards recognised	–	137
Deferred tax assets	**–**	**137**
Movements		
Balance at beginning of the year	137	(317)
Recognised in statement of comprehensive income	(3)	186
Adjustments for prior years	–	(42)
Reduction in tax rate	–	22
Tax value of loss (utilised) carried forward	(134)	25
Disposal of subsidiary	–	263
Balance at end of the year	**–**	**137**

11. Cash and cash equivalents

$000	Consolidated 2012	2011
Cash at bank	21,015	21,293
Investment operational cash:		
Overnight call deposits	74,162	19,513
Deposits at call	35,218	137,302
New Zealand fixed interest securities	110,510	428,551
Total cash and cash equivalents	**240,905**	**606,659**

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 2012 was 2.7% (2011: 2.7%). Cash and cash equivalents are designated as financial assets at fair value through profit or loss.

12. Receivables

$000	Consolidated 2012	2011
Self-employed debtors	85,317	86,238
Employer debtors	110,859	62,731
Motor vehicle levy receivable(i)	48,948	43,759
Earners levy due from Inland Revenue	7,875	–
Total levy receivables	**252,999**	**192,728**
Client debtors(ii)	1,658	4,458
PAYE receivable(iii)	380	178
Unsettled investment transactions	91,144	42,588
Dividends receivable	20,748	14,514
Interest receivable	1,180	1,091
Prepayments	5,851	8,717
Sundry debtors	6,360	13,612
Total non-levy receivables	**127,321**	**85,158**
Total receivables	**380,320**	**277,886**
Current	380,024	277,329
Non-current	296	557
Total receivables	**380,320**	**277,886**

Note:

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

(i) Motor vehicle levy receivable consists of:

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

In addition to the above there are levies outstanding from motor vehicle owners. New Zealand Transport Agency, in its capacity as collecting agent for ACC from motor vehicle owners, estimates this to be approximately $9.8 million (2011: $9.3 million). As ACC is not assured on collection of these levies no accrual has been made.

(ii) Client debt results when an overpayment on a claim has been recognised and is unable to be 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 2012	2011
Current	196,693	150,215
Past due 1–30 days	35,126	25,615
Past due 31–60 days	8,865	5,230
Past due > 60 days	12,315	11,668
Total	**252,999**	**192,728**

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 $117.8 million (2011: $66.2 million).

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

The change in fair value of receivables due to changes in credit risk is a decrease of $13.6 million (2011: decrease of $23.6 million).

The cumulative change in fair value of receivables due to changes in credit risk is a decrease of $106.2 million (2011: $92.6 million).

13. Accrued levy revenue

	Consolidated	
$000	2012	2011
Motor Vehicle Account	109,195	109,195
Earners' Account	1,223,041	1,374,992
Work Account	1,257,149	1,423,757
Total accrued levy revenue	**2,589,385**	**2,907,944**
Current	2,589,385	2,907,944
Non-current	–	–
Total accrued levy revenue	**2,589,385**	**2,907,944**

14. Investments

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

	Consolidated	
$000	2012	2011
New Zealand deposits at call	223,131	284,377
New Zealand equities	2,119,149	1,865,857
New Zealand government securities	6,048,846	5,178,607
Other New Zealand debt securities	5,598,465	4,687,951
Australian deposits at call	132,864	111,184
Australian equities	1,249,871	1,259,636
Overseas deposits at call	248,201	55,652
Overseas equities	4,273,356	2,595,663
Overseas debt securities	1,859,090	1,538,761
Total investments	**21,752,973**	**17,577,688**
Current	1,171,087	1,016,719
Non-current	20,581,886	16,560,969
Total investments	**21,752,973**	**17,577,688**

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

Joint ventures

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

Repurchase agreement

Securities dealt under repurchase agreements are included within investments classified as financial assets at fair value through profit or loss. These securities are subject to fully collateralised security lending transactions. Cash collateral received of $1,467.1 million (2011: $916.4 million) from these transactions is invested, and the liability to repurchase the investment is accrued in unsettled investment transactions.

	Consolidated			
	2012		2011	
$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	0.2	–	3.2	–
New Zealand government securities – repurchase agreements	1,466.9	1,480.2	913.2	924.6
	1,467.1	**1,480.2**	**916.4**	**924.6**

15. 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 2012 is summarised below:

	Consolidated			
	2012		2011	
$000	Fair value assets	Fair value liabilities	Fair value assets	Fair value liabilities
Interest rate swaps	315,784	9,993	156,799	2,485
Credit default swaps	1,099	1,692	1,204	1,060
Cross-currency interest rate swaps	30,191	7,463	33,182	2,787
Forward foreign currency contracts	18,372	17,672	12,512	1,396
Futures contracts	17,037	7	4,304	848
Options	–	497	–	86
Total derivative instruments	**382,483**	**37,324**	**208,001**	**8,662**
Current	35,408	17,679	16,902	2,330
Non-current	347,075	19,645	191,099	6,332
Total derivative instruments	**382,483**	**37,324**	**208,001**	**8,662**

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

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

	Consolidated	
$000	2012	2011
Interest rate swaps	3,667,864	1,703,570
Credit default swaps	99,224	72,700
Cross-currency interest rate swaps	1,342,364	776,600
Forward foreign currency contracts	2,832,115	2,507,613
Futures contracts – long	598,308	104,276
Futures contracts – short	(192,222)	(156,560)
Options	92,068	124,955

16. Financial risk management policies and objectives

(a) Risk management objectives

Each of ACC's five Accounts divides its investable funds between an investment in ACC's operational cash portfolio and a reserves portfolio specific to that Account. The operational cash portfolio is used to meet operational liquidity requirements. The Accounts' various reserves portfolios allocate their funds between different investment markets (designated 'asset classes') in differing proportions, but all the funds allocated to a particular asset class by the various Accounts are pooled 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 limits exposure 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.

(b) Market risk

(i) Interest rate risk

The interest rate exposures of the reserves portfolios and the operational cash portfolio are managed through asset allocation between asset classes; through 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 both highly sensitive to interest rates and, for some Accounts, significantly larger than the investment portfolios). These interest rate swap positions are measured as a component of each Account's reserves portfolio.

SENSITIVITY ANALYSIS

The sensitivity analysis in the table below shows how the effect on the consolidated net (deficit) surplus has 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 2012, if the interest rate at that date had been 1% higher/lower with all other variables remaining constant, the net (deficit) surplus would have moved as per the table below. Any change in the net (deficit) surplus for the period would result in a corresponding movement in equity.

Cash flow interest risk	Change in interest rate %	2012 Impact on net (deficit) surplus $000	2011 Impact on net (deficit) surplus $000
New Zealand dollar interest rates	+1.0	2,005	22,269
New Zealand dollar interest rates	-1.0	(2,005)	(22,269)

Fair value interest risk	Change in interest rate %	2012 Impact on net (deficit) surplus $000	2011 Impact on net (deficit) surplus $000
Long-term New Zealand dollar interest rates	+1.0	(805,593)	(654,905)
Long-term New Zealand dollar interest rates	-1.0	916,196	698,564

The above only shows the impact of changes in interest rate on ACC's investment portfolios. Changes in interest rate also have an impact on the outstanding claims liability. Refer to Note 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	
Receive fix/pay floating interest rate swap contracts	2012 %	2011 %	2012 $000	2011 $000	2012 $000	2011 $000
Less than one year	–	–	–	–	–	–
Between one to two years	–	–	–	–	–	–
Between two to three years	–	–	–	–	–	–
Greater than three years	4.91	6.19	3,667,864	1,703,570	305,791	154,314
			3,667,864	**1,703,570**	**305,791**	**154,314**

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 objectives 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 and Global bond portfolios to be hedged, whilst allowing for a portion of non-Australasian equity portfolios 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 equities. In each case, the benchmark level of foreign exchange exposure is greater than zero, but lower than the Account's total investment in global equities. Accordingly, each Account partially hedges its foreign exchange exposure arising from its global equity portfolios.

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

REPRICING ANALYSIS

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

SENSITIVITY ANALYSIS

The following sensitivity analysis shows the impact on the consolidated net (deficit) 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 (deficit) surplus for the period would result in a corresponding movement in equity.

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

2011 $000	AUD	USD	EUR	GBP	CHF	JPY	CAD	OTHER
Impact on net (deficit) surplus								
10% increase	(36,416)	(143,980)	(45,559)	(38,406)	(13,665)	(27,746)	(6,556)	(25,967)
10% decrease	44,509	175,976	55,683	46,941	16,702	33,911	8,013	31,737

(iii) Other price risk

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

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

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

	Movement %	2012 Impact on net (deficit) surplus $000	2011 Impact on net (deficit) surplus $000
Global equities	+10	426,768	258,352
	-10	(426,768)	(258,352)
New Zealand equities	+10	206,016	181,330
	-10	(206,016)	(181,330)
Private equities	+10	7,257	7,332
	-10	(7,257)	(7,332)
Australian equities	+10	124,198	125,102
	-10	(124,198)	(125,102)

(c) Credit risk

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

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

The maximum combined debt and equity exposure that ACC may have to any single counterparty within internally managed portfolios, other than New Zealand Government and certain authorised banks and large local authorities, is 3% of the value of the 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 of the credit risk exposure of ACC at 30 June 2012 by grouping securities according to the credit risk ratings of the counterparties. In determining the credit risk ratings the primary source used is Standard and Poor's.

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

ACC has an additional exposure of $45.7 million with regard to credit default swaps. This is the risk of the underlying entity defaulting on their contractual obligations (2011: $72.7 million).

2011 $000	AAA	AA	A	BBB	Below BBB	Not rated	Total
Cash and cash equivalents	154,780	403,637	28,335	19,907	–	–	606,659
Deposits at call	1,130	449,758	–	–	–	325	451,213
Other New Zealand debt securities	1,907,618	2,022,150	214,902	272,004	23,643	247,634	4,687,951
Overseas debt securities	1,101,161	42,614	134,801	72,184	60,207	127,794	1,538,761
New Zealand government securities	5,178,607	–	–	–	–	–	5,178,607
Interest rate swaps	–	130,866	59,115	–	–	–	189,981
Forward foreign currency contracts	–	12,512	–	–	–	–	12,512
Credit default swaps	–	804	400	–	–	–	1,204
Receivables	9	37,699	1,502	768	15	229,176	269,169
Accrued levy revenue	–	–	–	–	–	2,907,944	2,907,944
	8,343,305	**3,100,040**	**439,055**	**364,863**	**83,865**	**3,512,873**	**15,844,001**

Refer to Note 15 for maximum exposure to credit risk for derivative financial instruments.

(d) Liquidity risk

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

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

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

At 30 June 2011 $000	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Greater than 5 years
Payables	1,321,152	–	–	–
Uncalled private equity commitments	2,157	7,777	8,434	12,314

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

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

At 30 June 2011 $000	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Greater than 5 years
Derivative financial instruments	104,967	59,970	179,907	168,338

(e) 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) is fair value at initial cost of investment and adjusted for performance of the business and changes in equity market conditions, since inception date. This is consistent with the 'International Private Equity and Venture Capital Valuation Guidelines'.
- The carrying value less impairment provision of receivables and payables approximates their fair values.
- For investments with no active market, fair values are determined using valuation techniques. Such techniques include arm's-length transactions, reference to the current market value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible and keeping judgemental inputs to a minimum.

Securitised assets

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

At 30 June 2012 ACC held $21.6 million (2011: $32.7 million) of residential mortgage-backed bonds originated by Property Finance Securities for which there is no market price. This investment was reduced predominantly by the amortisation of the mortgage collateral. The fair value applied to this investment at 30 June 2012 is based on a valuation methodology which calculates a price based on an average independent market valuation of similar non-bank mortgage-backed bonds rated AAA and AA with a similar weighted average life and collateral characteristics. Any additional illiquidity compared with other instruments for which there are market valuations is not considered to have a material effect on the fair value.

At 30 June 2012 ACC held $35.8 million (2011: $43.2 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 amortisation of the mortgage collateral. The fair value applied to this investment at 30 June 2012 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 2012 ACC held $47.5 million (2011: $53.2 million) of reverse mortgage-backed bonds originated by Property Finance Securities for which there is no market price. This investment was reduced predominantly by the amortisation of the mortgage collateral. The fair value applied to this investment at 30 June 2012 is based on a valuation methodology which calculates a price based on the wider securitisation market comparables rated AAA and AA along with other key factors including interest rates, property market values and life expectancy. 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 2012 ACC held $30.7 million (2011: $44.6 million) of residential mortgage-backed bonds issued by Liberty NZ Series 2007-1 trusts for which there is no market price. This investment was reduced predominantly by the amortisation of the mortgage collateral. The fair value applied to this investment at 30 June 2012 is based on a valuation methodology which calculates a price based on an average independent market valuation of similar non-bank mortgage-backed bonds rated AAA with a similar weighted average life and collateral characteristics. Any additional illiquidity compared with other instruments for which there are market valuations is not considered to have a material effect on the fair value.

At 30 June 2012 ACC held $nil (2011: $23.7 million) of mortgage-backed bonds in Foundation Mortgage Securities, a private warehouse funding arrangement for which there is no market price.

At 30 June 2012 ACC held $24.0 million (2011: $30.0 million) of 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 amortisation of the mortgage collateral. The fair value applied to this investment at 30 June 2012 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.

These instruments represent 1.2% (2011: 2.7%) of the $13,149 million (2011: $8,362 million) of ACC's in-house managed debt security funds across all debt security portfolios held at 30 June 2012.

(f) Fair value hierarchy

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

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

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

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

As at 30 June 2011 $000	Consolidated Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments				
Interest rate swaps	–	156,799	–	156,799
Credit default swaps	–	1,204	–	1,204
Cross-currency swaps	–	33,182	–	33,182
Forward foreign currency contracts	–	12,512	–	12,512
Futures	4,304	–	–	4,304
	4,304	**203,697**	**–**	**208,001**
Financial assets designated at fair value through profit or loss				
New Zealand equities	1,798,270	5,581	62,006	1,865,857
New Zealand government securities	–	5,178,607	–	5,178,607
New Zealand debt securities	–	4,459,662	228,289	4,687,951
Australian equities	1,231,010	19,888	8,738	1,259,636
Overseas equities	2,566,193	2,829	26,641	2,595,663
Overseas debt securities	–	1,536,482	2,279	1,538,761
	5,595,473	**11,203,049**	**327,953**	**17,126,475**
	5,599,777	**11,406,746**	**327,953**	**17,334,476**
Financial liabilities				
Derivative financial instruments				
Interest rate swaps	–	(2,485)	–	(2,485)
Credit default swaps	–	(1,060)	–	(1,060)
Cross-currency swaps	–	(2,787)	–	(2,787)
Forward foreign currency contracts	–	(1,396)	–	(1,396)
Futures	(848)	–	–	(848)
Options	–	(86)	–	(86)
	(848)	**(7,814)**	**–**	**(8,662)**

Transfer between categories

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

Reconciliation of Level 3 fair value movements

$000	Consolidated 2012	2011
Opening balance	**327,953**	**424,066**
Total gains (losses) recognised in surplus or deficit	12,565	(10,410)
Total gains (losses) recognised in other comprehensive income	–	–
Purchases	111,873	23,388
Sales	(94,290)	(98,647)
Interest	1,389	–
Issues	–	–
Settlements	–	(10,373)
Transfers into Level 3	235	411
Transfers out of Level 3	(459)	(482)
Closing balance	**359,266**	**327,953**
Total gains (losses) stated on Level 3 instruments still held at balance date	**(36,449)**	**(6,160)**

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

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

(i) lower WAL (WAL times 0.75) and higher WAL (WAL times 1.25), i.e. varying the WAL by 25%

(ii) lower credit spread (credit spread less 1%) and higher credit spread (credit spread plus 1%) i.e. using credit spread plus or minus 1%.

	Impact on fair value of Level 3 (%)	
	2012	2011
Variable used in valuation:		
Higher WAL (WAL times 1.25)	(0.76)	(1.43)
Lower WAL (WAL times 0.75)	0.84	1.63
Higher credit spread (credit spread plus 1%)	(1.31)	(1.98)
Lower credit spread (credit spread less 1%)	1.41	1.94

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

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

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

Refer to the statement of cash flows for fair value movements in cash and cash equivalents. Refer to Note 12 for fair value movements in receivables and Note 11 and Note 14 for fair value movements in deposits at call.

17. Investment properties

	Consolidated		
$000	Land	Buildings	Total
Opening balance as at 1 July 2010	**10,100**	**23,550**	**33,650**
Net (losses) from revaluations	(750)	(1,850)	(2,600)
Closing balance as at 30 June 2011	**9,350**	**21,700**	**31,050**
Opening balance as at 1 July 2011	**9,350**	**21,700**	**31,050**
Net (losses) from revaluations	–	(3,850)	(3,850)
Closing balance as at 30 June 2012	**9,350**	**17,850**	**27,200**

There are three investment properties that are leased to third parties:

(i) Radius St Joan Hospital

The investment property was valued at $4.6 million on 30 June 2012 (2011: $4.9 million) by Michael Gunn, a member of the New Zealand Institute of Valuers (ANZIV), and an independent valuer of the firm CB Richard Ellis Ltd. The property was valued under a combination of the capitalisation approach (80%) and direct comparison approach (20%), providing an equivalent yield of 10.87%.

(ii) Fashion Island Papamoa

The investment property was valued at $7.1 million on 30 June 2012 (2011: $7.5 million) by Timothy Arnott, a member of the New Zealand Property Institute (MPINZ), and an independent valuer of the firm CB Richard Ellis Ltd. The property was valued under the discounted cash flow approach, providing an equivalent yield of 12.15%.

(iii) Fashion Island Nelson

The investment property was valued at $15.5 million on 30 June 2012 (2011: $18.7 million) by Timothy Arnott, a member of the New Zealand Property Institute (MPINZ), and an independent valuer of the firm CB Richard Ellis Ltd. The property was valued under a combination of the capitalisation approach and discounted cash flow approach, providing an equivalent yield of 12.52%.

18. Investment in subsidiaries

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

Name	Country of incorporation	% Equity interest 2012	% Equity interest 2011	Investment $000 2012	Investment $000 2011	Balance date
Shamrock Superannuation Limited	New Zealand	100	100	– *	– *	30 June
Catalyst Risk Management Limited	New Zealand	–	100	–	2,600	30 June
Provision for impairment				–	(2,600)	
				–	**–**	

** Investment less than $1,000.*

Catalyst Risk Management Limited is an injury management company providing recovery and rehabilitation management services. The sale of this company was completed on 30 September 2011.

Assets and liabilities and cash flow information of disposed entity

Details of the disposal of Catalyst Risk Management Limited are as follows:

The major classes of assets and liabilities of Catalyst Risk Management Limited are as follows:

$000	
Assets	
Cash and cash equivalents	278
Other current assets	509
Non-current assets	253
	1,040
Liabilities	
Current liabilities	692
Non-current liabilities	–
Net assets	**348**

Consideration received or receivable:

$000	
Cash	815
Less net assets disposed of	348
Gain on disposal	**467**

Net cash (outflow) on disposal:

$000	
Cash and cash equivalent consideration	815
Less cash and cash equivalents balance disposed of	(278)
Reflected in the consolidated statement of cash flows	**537**

19. Property, plant and equipment

Consolidated

$000	Land	Buildings	Leasehold improvements	Furniture, fittings and equipment	Computer equipment	Motor vehicles	Total
At 1 July 2010							
At cost	4,630	27,803	33,594	27,661	102,279	5,542	201,509
Accumulated depreciation	–	(20,273)	(23,685)	(24,503)	(74,238)	(3,920)	(146,619)
Net carrying amount at 1 July 2010	**4,630**	**7,530**	**9,909**	**3,158**	**28,041**	**1,622**	**54,890**
Year ended 30 June 2011							
Opening net carrying amount	4,630	7,530	9,909	3,158	28,041	1,622	54,890
Additions	–	1	8,956	930	17,642	914	28,443
Revaluation (decrease)	(100)	(2,438)	–	–	–	–	(2,538)
Depreciation charge	–	(989)	(2,863)	(1,100)	(11,088)	(685)	(16,725)
Other (includes disposals)	–	11	(316)	(118)	(301)	(2)	(726)
Disposal of subsidiary	–	–	(360)	(323)	(135)	–	(818)
Closing net carrying amount	**4,530**	**4,115**	**15,326**	**2,547**	**34,159**	**1,849**	**62,526**
At 30 June 2011							
At cost	4,530	23,670	41,363	25,834	117,288	6,402	219,087
Accumulated depreciation	–	(19,555)	(26,037)	(23,287)	(83,129)	(4,553)	(156,561)
Net carrying amount at 30 June 2011	**4,530**	**4,115**	**15,326**	**2,547**	**34,159**	**1,849**	**62,526**
Year ended 30 June 2012							
Opening net carrying amount	4,530	4,115	15,326	2,547	34,159	1,849	62,526
Additions	–	4	3,314	84	376	1,603	5,381
Revaluation (decrease)	(667)	(1,667)	–	–	–	–	(2,334)
Depreciation charge	–	(578)	(3,684)	(1,070)	(6,777)	(786)	(12,895)
Other (includes disposals)	–	(4)	(749)	45	(265)	(116)	(1,089)
Disposal of subsidiary	–	–	–	(15)	(42)	–	(57)
Closing net carrying amount	**3,863**	**1,870**	**14,207**	**1,591**	**27,451**	**2,550**	**51,532**
At 30 June 2012							
At cost	3,863	21,201	35,616	22,154	76,410	5,469	164,713
Accumulated depreciation	–	(19,331)	(21,409)	(20,563)	(48,959)	(2,919)	(113,181)
Net carrying amount at 30 June 2012	**3,863**	**1,870**	**14,207**	**1,591**	**27,451**	**2,550**	**51,532**

(a) Freehold land and buildings carried at fair value

ACC owns two freehold properties, Shamrock House in Wellington valued in May 2012 at a market value of $5.3 million ($8.2 million in June 2011), and a house in Greymouth valued in June 2010 at a market value of $420,000. ACC holds its freehold premises as capital assets for long-term ownership, not as investment properties. The valuations were completed by Colliers Limited and Coast Valuations Limited respectively. Both are independent registered public valuers. The investment value approach was used as the basis of the valuations.

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

$000	Consolidated 2012	2011
Freehold land	457	1,012
Buildings	3,660	4,469

(b) Impairment

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

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

(c) Non-current assets held for sale

Shamrock House in Wellington has been classified as held for sale following a decision to sell the property.

$000	Consolidated 2012	2011
Freehold land	3,740	–
Buildings	1,567	–
Total non-current assets held for sale	**5,307**	**–**

The accumulated asset revaluation reserve recognised in reserves for Shamrock House at 30 June 2012 is $2.8 million.

20. Intangible assets

Consolidated

$000	Internally generated computer software	Acquired computer software	Total
At 1 July 2010			
At cost	335,883	19,888	355,771
Accumulated amortisation	(192,197)	(18,027)	(210,224)
Accumulated impairment	(14,417)	–	(14,417)
Net carrying amount at 1 July 2010	**129,269**	**1,861**	**131,130**
Year ended 30 June 2011			
Opening net carrying amount	129,269	1,861	131,130
Additions	36,783	76	36,859
Impairment and write-offs	(2,169)	–	(2,169)
Amortisation charge	(32,664)	(223)	(32,887)
Other (includes disposals)	(12)	6	(6)
Disposal of subsidiary	(184)	–	(184)
Closing net carrying amount	**131,023**	**1,720**	**132,743**
At 30 June 2011			
At cost	356,490	19,970	376,460
Accumulated amortisation	(224,236)	(18,250)	(242,486)
Accumulated impairment	(1,231)	–	(1,231)
Net carrying amount at 30 June 2011	**131,023**	**1,720**	**132,743**
Year ended 30 June 2012			
Opening net carrying amount	131,023	1,720	132,743
Additions	34,991	–	34,991
Impairment and write-offs	(11,474)	–	(11,474)
Amortisation charge	(36,795)	(9)	(36,804)
Other (includes disposals)	347	(1,711)	(1,364)
Disposal of subsidiary	(196)	–	(196)
Closing net carrying amount	**117,896**	**–**	**117,896**
At 30 June 2012			
At cost	378,336	18,132	396,468
Accumulated amortisation	(260,440)	(18,132)	(278,572)
Net carrying amount at 30 June 2012	**117,896**	**–**	**117,896**

(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 $11.5 million were recognised for the year ended 30 June 2012 (2011: $2.2 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 2012 of $56.5 million (2011: $64.0 million). There are between four and seven years remaining in amortisation.

21. Payables and accrued liabilities

	Consolidated	
$000	2012	2011
Unsettled investment transactions	1,727,165	1,216,196
PAYE and earnings-related deductions	7,147	6,035
Claims expenditure	136,293	168,766
Occupational safety and health	2,010	654
Sundry creditors	4,137	4,610
Unspent motorcycle safety levy	–	1,897
Levies overpaid by Inland Revenue	–	2,296
Non-Earners' appropriation refund	22,729	30,597
Goods and services tax	31,809	29,448
Other accrued expenditure	40,741	56,096
Total payables and accrued liabilities	**1,972,031**	**1,516,595**
Current	1,972,031	1,516,595
Non-current	–	–
Total payables and accrued liabilities	**1,972,031**	**1,516,595**

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

22. Provisions

	Consolidated	
$000	2012	2011
Employee benefits	32,793	29,191
Restructuring	159	837
Leasehold restoration	2,359	2,419
Interest on weekly compensation payments	14,787	14,492
Compensation and rehabilitation costs	14,700	–
Onerous contracts	2,446	–
Total provisions	**67,244**	**46,939**
Current	57,684	39,164
Non-current	9,560	7,775
Total provisions	**67,244**	**46,939**

Movements in provisions

Movement for each class of provision is set out below.

(a) Employee benefits

$000	Consolidated 2012	2011
Opening balance	29,191	24,686
Paid out during the year	(25,672)	(23,337)
Additional provision made during the year	30,141	29,746
Reversal of unused provision	(692)	(636)
Disposal of subsidiary	(175)	(1,268)
Closing balance	**32,793**	**29,191**

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

(b) Restructuring

$000	Consolidated 2012	2011
Opening balance	837	38
Paid out during the year	(1,364)	(455)
Provision made during the year	686	1,274
Reversal of unused provision	–	(20)
Closing balance	**159**	**837**

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

(c) Leasehold restoration

$000	Consolidated 2012	2011
Opening balance	2,419	1,593
Additional provision made during the year	974	1,428
Reversal of unused provision	(986)	(602)
Disposal of subsidiary	(48)	–
Closing balance	**2,359**	**2,419**

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 2012	2011
Opening balance	14,492	32,488
Provision made during the year	295	–
Reversal of unused provision	–	(17,996)
Closing balance	**14,787**	**14,492**

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 re-instated.

(e) Compensation and rehabilitation costs

$000	Consolidated 2012	2011
Opening balance	–	–
Provision made during the year	14,700	–
Closing balance	**14,700**	**–**

The provision was made as a result of a decision from the Supreme Court of New Zealand which held that an impregnation resulting from 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 2012	2011
Opening balance	–	–
Provision made during the year	2,446	–
Closing balance	**2,446**	**–**

ACC has a non-cancellable lease for office space that has been vacated due to earthquake risk. The lease does not expire until 31 January 2016 and is unlikely to be able to be sub-let. A provision has been recognised for the obligation of the future lease payments. There is also a provision recognised for unavoidable costs arising from the termination of the supply of information and communications technology services with the current supplier.

23. Unearned levy liability

000	2012 Total	Motor Vehicle Account	Earners' Account	Work Account	2011 Total
Opening balance at 1 July	2,428,524	380,706	1,261,097	786,721	2,462,179
Deferral of levies recognised in the year	2,183,444	383,676	1,102,341	697,427	2,428,524
Earnings of levies recognised in previous years	(2,428,524)	(380,706)	(1,261,097)	(786,721)	(2,462,179)
Closing balance at 30 June	**2,183,444**	**383,676**	**1,102,341**	**697,427**	**2,428,524**
Current	2,183,233	383,465	1,102,341	697,427	2,428,333
Non-current	211	211	–	–	191
Total unearned levy liability	**2,183,444**	**383,676**	**1,102,341**	**697,427**	**2,428,524**

24. Unexpired risk liability

$000	2012	Motor Vehicle Account	Earners' Account	Work Account	2011
Opening balance at 1 July	**–**	**–**	**–**	**–**	**105,287**
Recognition of additional unexpired risk liability in the period	68,592	–	11,535	57,057	–
Release of unexpired risk liability recorded in previous periods	–	–	–	–	(105,287)
Closing balance at 30 June	**68,592**	**–**	**11,535**	**57,057**	**–**
Calculation of deficiency					
Unearned levy liability as reported in statement of financial position	2,183,444	383,676	1,102,341	697,427	2,428,524
Adjustment(i)	(338,827)	(114,693)	–	(224,134)	(324,249)
Adjusted unearned levy liability	**1,844,617**	**268,983**	**1,102,341**	**473,293**	**2,104,275**
Central estimate of present value of expected future cash flows arising from future claims	1,596,435	186,071	960,253	450,111	1,542,856
Risk margin	276,736	42,874	153,623	80,239	266,753
Present value of expected future cash flows for future claims	**1,873,171**	**228,945**	**1,113,876**	**530,350**	**1,809,609**
Deficiency (surplus)	**28,554**	**(40,038)**	**11,535**	**57,057**	**(294,666)**
Adjustment for surplus in Account(ii)	40,038	40,038	–	–	294,666
Total unexpired risk liability	**68,592**	**–**	**11,535**	**57,057**	**–**
Current	68,592	–	11,535	57,057	–
Non-current	–	–	–	–	–
Total unexpired risk liability	**68,592**	**–**	**11,535**	**57,057**	**–**

Note:

(i) An adjustment is made to the reported unearned levy liability to exclude the portion that is used to fund residual claims in the calculation of deficiency.

(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 deficiency in levies in the Earners' and Work Accounts but none for the Motor Vehicle Account in 2012. There were no deficiencies in any Accounts in 2011.

Liability adequacy test is not performed for the Non-Earners' Account as there is no unearned levy liability as at 30 June 2012 for this Account. The unexpired risk liability for the Earners' Account includes the earners' portion of treatment injury.

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:

	2012	2011
Motor Vehicle	24.2%	24.2%
Earners'	15.9%	15.9%
Work	19.1%	19.1%
Treatment Injury	25.9%	25.9%
Overall margin (weighted average)	**18.0%**	**18.0%**

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

25. Outstanding claims

(a) Outstanding claims liability (discounted)

$000	30 June 2012 Total	Motor Vehicle Account	Non-Earners' Account	Earners' Account	Work Account	Treatment Injury Account	30 June 2011 Total
Rehabilitation							
Medical treatment	1,958,849	251,268	614,566	545,228	430,964	116,823	1,685,395
Miscellaneous	13,575,895	4,341,217	3,256,122	1,879,372	1,960,920	2,138,264	11,272,110
	15,534,744	**4,592,485**	**3,870,688**	**2,424,600**	**2,391,884**	**2,255,087**	**12,957,505**
Compensation							
Income maintenance	6,894,843	1,967,715	405,154	1,850,301	2,221,175	450,498	6,425,100
Impairment benefits	1,059,061	172,941	458,145	175,921	175,434	76,620	983,030
	7,953,904	**2,140,656**	**863,299**	**2,026,222**	**2,396,609**	**527,118**	**7,408,130**
Central estimate of present value of future claims payments	**23,488,648**	**6,733,141**	**4,733,987**	**4,450,822**	**4,788,493**	**2,782,205**	**20,365,635**
Present value of the operating costs of meeting these claims	1,657,299	450,338	193,576	355,855	523,635	133,895	1,347,234
Bulk billed costs	8,171	995	5,019	1,608	507	42	8,407
	25,154,118	**7,184,474**	**4,932,582**	**4,808,285**	**5,312,635**	**2,916,142**	**21,721,276**
Risk margin	3,242,277	962,720	680,696	533,720	636,468	428,673	2,789,159
Outstanding claims liability	**28,396,395**	**8,147,194**	**5,613,278**	**5,342,005**	**5,949,103**	**3,344,815**	**24,510,435**
As at beginning of year	**24,510,435**	**7,014,709**	**4,642,258**	**4,722,729**	**5,477,538**	**2,653,201**	**24,429,858**
Movement during the year	**3,885,960**	**1,132,485**	**971,020**	**619,276**	**471,565**	**691,614**	**80,577**
Weighted average term to settlement	15 yrs 10 mths	16 yrs 7 mths	19 yrs 5 mths	13 yrs 5 mths	10 yrs 11 mths	21 yrs 8 mths	14 yrs 7 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:

	2012	2011
Motor Vehicle	13.4%	13.4%
Non-Earners'	13.8%	13.8%
Earners'	11.1%	11.1%
Work	12.0%	12.0%
Treatment Injury	14.7%	14.7%
Overall margin (weighted average)	**12.9%**	**12.8%**

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

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

(v) Legislative changes – involving improved modelling of historical legislative changes relating to entitlements for surviving spouses and claims involving suicide.

(vi) Discount unwind – as prior claims move one year closer to the date of expected payment, the reduction of the number of years over which discounting takes place is termed as the discount unwind.

(vii) Claims anticipated over the year – is the expected claim costs arising from new accidents in the year to 30 June 2012. The cost is the present value of projected payments post 30 June 2012 plus the expected payments to be made in the year ended 30 June 2012.

(viii) Claims payments and handling costs – is the actual claims paid and the actual claims handling costs incurred over the year ended 30 June 2012.

$000	30 June 2012 Total	Motor Vehicle Account	Non-Earners' Account	Earners' Account	Work Account	Treatment Injury Account	30 June 2011 Total
Outstanding claims brought forward	**24,510,435**	**7,014,709**	**4,642,258**	**4,722,729**	**5,477,538**	**2,653,201**	**24,429,858**
Effects of changes in inflation assumptions	(209,289)	(58,337)	(44,304)	(38,719)	(44,089)	(23,840)	107,853
Effects of changes in discount rates	5,084,767	1,541,795	1,109,594	851,322	897,696	684,360	862,054
Effect of claims experience and modelling	(1,860,325)	(556,535)	(263,853)	(440,220)	(421,677)	(178,040)	(1,780,519)
Effect of payments experience	(99,346)	(34,060)	198,987	(102,352)	(148,339)	(13,582)	(512,362)
Effect of legislative changes	(72,709)	(4,575)	(5,444)	(61,142)	4,189	(5,737)	(185,098)
Effect of discount unwind	727,290	198,442	132,454	145,896	171,203	79,295	831,914
Claims anticipated over the year	3,233,841	476,507	646,799	1,193,201	647,187	270,147	3,652,298
Incurred claims recognised in the statement of comprehensive income	**6,804,229**	**1,563,237**	**1,774,233**	**1,547,986**	**1,106,170**	**812,603**	**2,976,140**
Claims payments and handling costs	(2,918,269)	(430,752)	(803,213)	(928,710)	(634,605)	(120,989)	(2,895,563)
Outstanding claims carried forward	**28,396,395**	**8,147,194**	**5,613,278**	**5,342,005**	**5,949,103**	**3,344,815**	**24,510,435**

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

$000	30 June 2012 Total	Motor Vehicle Account	Non Earners' Account	Earners' Account	Work Account	Treatment Injury Account	30 June 2011 Total
Liability for outstanding claims – undiscounted	69,817,572	19,398,764	17,637,085	10,811,947	8,776,102	13,193,674	71,819,083
Liability for claims handling costs – undiscounted	3,333,858	987,855	465,203	658,429	874,704	347,667	3,075,669
Discount to present value – outstanding claims	(46,320,754)	(12,664,630)	(12,898,079)	(6,359,516)	(3,987,102)	(10,411,427)	(51,445,041)
Discount to present value – claims handling costs	(1,676,558)	(537,515)	(271,628)	(302,575)	(351,068)	(213,772)	(1,728,435)
Liability for outstanding claims – discounted	23,496,818	6,734,134	4,739,006	4,452,431	4,789,000	2,782,247	20,374,042
Liability for claims handling costs – discounted	1,657,300	450,340	193,575	355,854	523,636	133,895	1,347,234
Total outstanding claims liability – discounted	**25,154,118**	**7,184,474**	**4,932,581**	**4,808,285**	**5,312,636**	**2,916,142**	**21,721,276**
Risk margin	3,242,277	962,720	680,697	533,720	636,467	428,673	2,789,159
Total outstanding claims liability with risk margin	**28,396,395**	**8,147,194**	**5,613,278**	**5,342,005**	**5,949,103**	**3,344,815**	**24,510,435**
Current	1,994,898	388,935	317,690	605,565	555,167	127,541	2,044,815
Non-current	26,401,497	7,758,259	5,295,588	4,736,440	5,393,936	3,217,274	22,465,620
Total outstanding claims liability with risk margin	**28,396,395**	**8,147,194**	**5,613,278**	**5,342,005**	**5,949,103**	**3,344,815**	**24,510,435**

(d) Claims development table

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

Accident year $000	2006	2007	2008	2009	2010	2011	2012	Total
Estimate of ultimate claim costs:								
At end of accident year	3,199,785	3,873,024	5,502,035	7,103,138	7,034,693	7,517,025	6,876,758	
One year later	3,613,192	4,868,402	6,709,125	6,733,342	6,738,577	6,288,195	–	
Two years later	4,357,856	5,860,005	6,469,689	6,713,810	5,938,507	–	–	
Three years later	5,033,661	5,943,687	6,411,714	6,045,476	–	–	–	
Four years later	5,206,729	6,230,323	5,735,852	–	–	–	–	
Five years later	5,186,140	5,768,066	–	–	–	–	–	
Six years later	4,924,771	–	–	–	–	–	–	
Current estimate of cumulative claim costs	**4,924,771**	**5,768,066**	**5,735,852**	**6,045,476**	**5,938,507**	**6,288,195**	**6,876,758**	**41,577,625**
Cumulative payments	(1,472,423)	(1,643,151)	(1,725,006)	(1,591,512)	(1,266,906)	(1,093,126)	(698,619)	(9,490,743)
Outstanding claims – undiscounted	**3,452,348**	**4,124,915**	**4,010,846**	**4,453,964**	**4,671,601**	**5,195,069**	**6,178,139**	**32,086,882**
Discount								(22,129,515)
Claims handling costs								1,866,306
2005 and prior claims								16,558,062
Short tail outstanding claims								14,660
Outstanding claims – per statement of financial position								**28,396,395**

(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 the claim to ACC. However, the outstanding claims liability does not cover future payments on claims to injured parties on gradual process claims that 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 which 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 and Mr Ross Simmonds, Fellows of the Institute and Faculty of Actuaries (UK), and Mr Chris Latham, a Fellow of the Institute of Actuaries of Australia. Mr Rhodes, Mr Simmonds and Mr Latham are also Fellows of the New Zealand Society of Actuaries.

The actuarial estimate has been made based on actual experience to 30 June 2012. 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 New Zealand Equivalent to International Financial Reporting Standard 4: Insurance Contracts.

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

The 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:

	2012		2011	
	Year 1 % pa	Beyond Year 1 % pa	Year 1 % pa	Beyond Year 1 % pa
1. Discount rate	2.43%	2.47% to 6.00%	2.84%	3.81% to 6.24%
2. Inflation rates:				
– weekly compensation	3.0%	3.3% to 3.5%	3.8%	3.5%
– impairment benefits	1.1%	2.1% to 2.5%	4.5%	2.5% to 2.9%
– social rehabilitation benefits[a]	2.2%	2.5% to 2.7%	3.0%	2.7%
– hospital rehabilitation benefits[b]	2.2%	2.5% to 2.7%	3.0%	2.7%
– short-term medical costs[c]	2.2%	2.5% to 2.7%	3.0%	2.7%
– other medical costs[c]	2.2%	2.5% to 2.7%	3.0%	2.7%

Superimposed inflation

In addition to the above there are superimposed inflation assumptions used in estimating the outstanding claims liability, which is 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 76% of rehabilitation liability) has an allowance for superimposed inflation which differs by type of payment e.g. care versus capital. This long-term superimposed inflation assumption has financial significance; the impact of any change in this assumption is disclosed in the sensitivity analysis. The social rehabilitation superimposed inflation is composed of the following components:

(1) Growth in liability due to changes in care packages: 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 effect:

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

2011 Financial year ending	2012	2013	2014–2015	2016–2018	2019–2020	2021–2030	2031+
Annual superimposed inflation	1.70%	4.50%	4.90%	5.00%	3.80%	3.20%	2.90%

(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 1.0% p.a. for 2013 followed by 6.6% p.a. for 4 years then 1.0% p.a thereafter (2011: 1.0% p.a. for 2012 followed by 6.0% p.a. for 5 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 ten years, followed by 4.0% p.a. thereafter (2011: 5.0% p.a. for the next ten years, followed by 4.0% p.a. thereafter).

(c) Medical cost inflation includes an explicit allowance for superimposed inflation.

	2012				2011			
	2013	2014	2015–2019	2020+	2012	2013	2014–2018	2019+
Short Term Medical								
General Practitioners	2.00%	2.00%	5.00%	3.00%	2.00%	2.00%	5.00%	3.00%
Radiology	4.25%	4.25%	6.50%	5.00%	4.25%	4.25%	6.50%	5.00%
Physiotherapists	1.70%	1.70%	2.30%	2.00%	1.70%	1.70%	2.20%	2.00%
Other Medical	**1.75%**	**1.75%**	**4.00%**	**2.50%**	**1.75%**	**1.75%**	**4.00%**	**2.50%**

Risk free discount rate

The risk-free rate is based predominantly on yield curves of the New Zealand government bond rates. The longest term of a current New Zealand government bond is 11 years. Discount rates beyond 11 years are smoothed at a maximum increment of 0.15% per annum or a five-year period (whichever is longer), to eventually attain a long-term risk-free discount rate of 6.00%. 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:

	2012	2011
Motor Vehicle	6.7%	6.5%
Non-Earners'	4.1%	2.8%
Earners'	8.0%	7.9%
Work	10.9%	10.3%
Treatment Injury	4.8%	4.0%
Overall margin (weighted average)	**7.1%**	**6.6%**

(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 6.00% in the long term as discussed above. The equivalent single effective discount rate taking into account ACC's projected future cash flow patterns is 4.52%.

INFLATION RATES

Short-term inflation rates are set by reference to the Labour Cost Index (LCI), Average Wage Earnings (AWE) and Consumer Price Index (CPI). Long-term inflation is determined using a long-term gap assumption between inflation and interest rates. Inflation rates beyond 23 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 of 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

Rehabilitation rate is the rate at which claimants recover sufficiently to no longer require support from ACC.

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

(ii) Sensitivity to changes in key assumptions

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

	Movement	2012 Impact on net (deficit) surplus $million	2011 Impact on net (deficit) surplus $million
Discount rate	+1.0%	3,792	3,005
	-1.0%	(5,000)	(3,937)
Inflation rate	+1.0%	(5,131)	(4,085)
	-1.0%	3,946	3,163
Long-term real rate of return	+1.0%	1,314	753
	-1.0%	(1,643)	(938)
Superimposed inflation (excluding social rehabilitation for serious injury claims)	+1.0%	(1,055)	(741)
	-1.0%	800	719
Discounted mean term	+1 year	855	735
	-1 year	(882)	(758)
Superimposed inflation for social rehabilitation for serious injury claims after four years	+1.0%	(2,554)	(1,904)
	-1.0%	1,883	1,415
Long-term continuance rates for non-fatal weekly compensation	+1.0%	(872)	(595)
	-1.0%	724	499

(f) Undiscounted outstanding claims liability

The reported outstanding claims liability of $28,396 million (2011: $24,510 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 2012. These estimated cash flows include the effects of assumed future inflation.

	Includes risk margin		Excludes risk margin	
$million	**2012**	**2011**	**2012**	**2011**
Less than one year	2,017	2,062	1,793	1,834
Between one and two years	1,538	1,551	1,366	1,378
Between two and five years	4,088	4,199	3,629	3,728
Between five and ten years	6,478	6,632	5,745	,5,884
Between ten and 15 years	6,374	6,544	5,648	5,800
Between 15 and 20 years	6,432	6,598	5,695	5,842
Between 20 and 25 years	6,564	6,727	5,807	5,952
Between 25 and 30 years	6,666	6,824	5,893	6,034
Between 30 and 35 years	6,646	6,786	5,871	5,996
Between 35 and 40 years	6,500	6,620	5,738	5,845
Between 40 and 45 years	6,195	6,310	5,464	5,567
Between 45 and 50 years	5,722	5,827	5,042	5,136
Greater than 50 years	17,583	18,083	15,460	15,899
Undiscounted outstanding claims liability	**82,803**	**84,763**	**73,151**	**74,895**

(g) Risk management policies and procedures

The financial condition and operations of ACC are affected by a number of key risks including insurance risk, credit risk (refer Notes 12 and 16), liquidity risk (refer Note 16), 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 which 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
- financial consequences of catastrophic events (e.g. earthquake, tsunami) are estimated each year. The cost of purchasing reinsurance and the effect on levy rates of post funding such events are considered. At this time, ACC does not hold any catastrophe reinsurance cover. This is based on a decision of the ACC Board made in 2011 and reviewed in 2012 to post fund any such event. Should such an event occur, the impact on levies to post-fund this is not expected to be significant.

(ii) Terms and conditions of accident cover

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

(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 which 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 2012 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	2012	2011
Reserve available for future gradual process claims where exposure occurred before 1 July 1999 – opening balance	**80,300**	**11,800**
Adjustment to prior years' claims incurred*	10,500	18,200
Levy revenue attributable to future gradual process claims where exposure occurred before 1 July 1999	151,400	86,300
Investment income attributable to the assets of the reserve for future gradual process claims where exposure occurred before 1 July 1999	15,900	10,300
Payments for gradual process claims made during the year	(6,500)	(9,200)
Liability for gradual process claims made during the year	(19,000)	(37,100)
Reserve available for future gradual process claims where exposure occurred before 1 July 1999 – closing balance	**232,600**	**80,300**

** 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 2012 and therefore excludes liability for future gradual process claims where the exposure had occurred but a claim has 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 2012 but for which a claim had not yet been made as at 30 June 2012. 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	2012	2011
Present value of obligation for future gradual process claims not yet made where exposure occurred before 1 July 1999	(600,000)	(723,000)
Present value of obligation for future gradual process claims not yet made where exposure occurred between 1 July 1999 and balance sheet date	(339,100)	(339,600)
Present value of obligation for all future gradual process claims not yet made	**(939,100)**	**(1,062,600)**

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 2012 the present value of this future revenue from 1 July 2012 to 31 March 2019 is $861 million (2011: $918 million).

$000	Consolidated 2012	2011
Reserve available for future gradual process claims where exposure occurred before 1 July 1999 – closing balance	232,600	80,300
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	860,500	917,900
Present value of obligation for future gradual process claims not yet made where exposure occurred before 1 July 1999	(600,000)	(723,000)
Difference in present value of obligation for future gradual process claims where exposure occurred before 1 July 1999 less reserves available and present value of future revenue gazetted to cover future gradual process claims where the exposure occurred before 1 July 1999	**493,100**	**275,200**

27. Asset revaluation reserves

$000	Consolidated 2012	2011
Land revaluation reserve		
Balance at the beginning of the year	3,501	3,601
Revaluation (decrease)	(668)	(100)
Balance at the end of the year	**2,833**	**3,501**
Building revaluation reserve		
Balance at the beginning of the year	1,641	4,079
Revaluation (decrease)	(1,389)	(2,438)
Balance at the end of the year	**252**	**1,641**
Total asset revaluation reserves	**3,085**	**5,142**

28. Cash flows

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

	Consolidated		
$000	Actual 2012	Budget 2012	Actual 2011
Net (deficit) surplus after tax	**(473,780)**	**2,000,235**	**3,548,076**
Add (less) items classified as investing activities:			
(Gains) losses on sale of property, plant and equipment	(446)	–	452
(Gains) losses on sale of intangible assets	13	–	–
Impairment and (gain) loss on disposal of investments in subsidiaries	(467)	–	3,109
Realised (gains) losses on sale of investments	(887,537)	(558,162)	(290,499)
Add (less) non-cash items:			
Depreciation	12,895	17,414	16,725
Amortisation of intangible assets	36,804	41,121	32,887
Intangible assets write-offs	11,474	–	2,169
Property, plant and equipment write-offs	2,277	–	582
Revaluation of property, plant and equipment	277	–	–
Fair value (gains) losses on investments	22,999	–	(756,663)
Net adjustments to investments from foreign exchange (unrealised)	39,278	–	180,865
Movement in provision for employee benefits	3,777	–	5,773
Movement in provision for restructuring costs	(678)	–	799
Movement in provision for leasehold restoration	(11)	–	826
Movement in provision for interest on weekly compensation	295	–	(17,996)
Movement in provision for compensation and rehabilitation costs	14,700	–	–
Movement in provision for onerous contracts	2,446	–	–
Fair value movement for levy debtors	13,684	–	23,566
Movement in deferred tax	137	(172)	(191)
Movement in unexpired risk liability	68,592	–	(105,287)
Increase in outstanding claims liability	3,885,960	834,090	80,577
Add (less) movements in working capital items:			
In receivables and accrued levy revenue	236,376	(168,598)	102,725
In payables and accrued liabilities	(55,523)	(7,586)	28,808
In unearned levy liability	(245,080)	91,740	(33,655)
Net cash inflow from operating activities	**2,688,462**	**2,250,082**	**2,823,648**

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 subsidiaries listed in Note 18.

(a) Significant transactions with government-related entities

ACC has been provided with funding from the Crown of $1,096.3 million (2011: $1,187.8 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 $439.5 million (2011: $421.8 million) and the various District Health Boards totalling $165.2 million

(2011: $158.6 million). The amount outstanding at balance date was $136.5 million (2011: $120.4 million). ACC made GST payments to Inland Revenue during the year totalling $452.9 million (2011: $403.5 million). The amount outstanding at balance date was $31.8 million (2011: $29.4 million).

ACC also made payments to Inland Revenue for collection of Earner Levies during the year totalling $20.5 million (2011: $20.5 million). The Earner Levy receivable from Inland Revenue at 30 June was $7.9 million (2011: $nil). ACC made payments to New Zealand Transport Agency for collection of Motor Vehicle Levies totalling $5.3 million (2011: $13.6 million). The Motor Vehicle Levy receivable from New Zealand Transport Agency at 30 June was $21.5 million (2011: $18.1 million). ACC made payments to New Zealand Customs Service for collection of the Petrol Levy totalling $0.02 million (2011: $0.02 million). The Petrol Levy receivable from New Zealand Customs Service at 30 June was $27.5 million (2011: $25.6 million). ACC made payments to Dispute Resolution Services Ltd for personal injury and mediation services totalling $13.4 million (2011: $12.6 million).

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

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

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

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

(c) Related party transactions with subsidiaries

During the year ACC purchased services from the group companies totalling $0.1 million (2011: $13.4 million). The amount outstanding at balance date was $nil (2011: $1.3 million). Sales to the group companies by ACC totalled $0.02 million (2011: $1.1 million). The amount outstanding at balance date was $nil (2011: $0.03 million).

(d) Key management personnel

The compensation for key management personnel is set out below:

	Consolidated	
$000	2012	2011
Short-term employee benefits and Board members' fees	3,382	4,439
Post employee benefits	–	53
Termination benefits	144	–
	3,526	**4,492**

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

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

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

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

No provision has been required, nor any expense recognised, for the impairment of receivables from related parties (2011: $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 Earners', Work and Motor Vehicle Accounts but final levy rates are set by the Government. The Non-Earners' Account has been fully funded by the Government 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 levy stability and financial sustainability.

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

The table below shows ACC's current funding status:

$million	2012	2011
Net assets (excluding outstanding claims liability)	21,214	17,804
Outstanding claims liability	28,396	24,510
Funding ratio	**74.7%**	**72.6%**

ACC will continue its current success in improving both its operating performance and progress towards its solvency position. The challenge for ACC is to manage the cost of running the Scheme as efficiently as possible, without any compromise on client outcomes or long-term financial sustainability. The long-term sustainability of the Scheme is achievable through a number of factors working together. This includes reaching full funding through appropriate levy setting and achieving benchmark investment returns, effectively managing ACC's liability through better managing rehabilitation, its associated costs and ACC's operating costs.

31. Reinsurance

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

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

32. Events after the balance sheet date

There were no significant events after balance date.

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 2011–2014*. The *Statement of Intent 2011–2014* was prepared based on the claims valuation as at 31 December 2010 using discount rates at 31 March 2011.

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 lower than budget mainly because of a decrease in the levy rates for the Earners' Account and Work Account.

Investment income

The investment return for the year was 9.47% for the reserves portfolio. This was above the market benchmarks and the 5.8% return assumed in the budget.

Claims paid

The lower rehabilitation and compensation costs are due to sustained good management of claims, continued improvements in the longer-term return-to-work rates and the lower than expected new claims.

Increase in outstanding claims liability

The increase is higher than expected due to the impact of discount rate movements and other economic factors and assumptions. This is partly offset by favourable claims experience from good rehabilitation performance (refer to Note 25(b) for details).

Movement in unexpired risk liability

The unexpired risk liability is $68.5 million as a result of the decrease in discount rates which increased the dollar value of the actuarial estimate of the costs of injuries that have not yet occurred.

(b) Statement of financial position

Investments

Investments are higher due to investment income coupled with higher investment activities from strong cash flows from operating activities.

Outstanding claims liability

The outstanding claims liability for the budget is based on the valuation done in December 2010. Since that valuation, there were increases in the claims liability mainly due to discount rate movements.

(c) Statement of changes in reserves (equity)

Net (deficit) surplus after tax

There was a deficit for the year compared with a budgeted surplus due to the budget variances explained in the statement of comprehensive income. ACC achieved a strong surplus from its operations excluding the increase in the outstanding claims liability due to discount rate movements.

(d) Statement of cash flows

The higher net cash inflow from operating activities was due to higher investment income and lower claims paid.

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 2012.

Paula Rebstock
Board chair
Date: 3 October 2012

John Meehan
Board member
Date: 3 October 2012

Ernst & Young 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 2012

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 82 to 143, that comprise the statement of financial position as at 30 June 2012, the statement of comprehensive income, statement of changes in reserves 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 30 to 50.

Opinion

In our opinion:

- the financial statements of the Corporation and group on pages 82 to 143:
  - comply with generally accepted accounting practice in New Zealand; and
  - fairly reflect the Corporation and group's:
    - financial position as at 30 June 2012; 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 30 to 50:
  - 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 2012, 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 3 October 2012. 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 would affect a reader's 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 risk 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. 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's responsibilities arise from the Crown Entities Act 2004, the Public Finance Act 1989 and the Accident Compensation Act 2001.

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 New Zealand Institute of Chartered Accountants.

In addition to the audit we have carried out assignments in the areas of tax and technical accounting advice, which are compatible with those independence requirements. Other than the audit and these assignments, we have no relationship with or interests in the Corporation or any of its subsidiaries.

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

Matters relating to the electronic presentation of the audited financial statements and statement of service performance

This audit report relates to the financial statements and statement of service performance of the Corporation and group for the year ended 30 June 2012 included on the Corporation's website. The Corporation's Board is responsible for the maintenance and integrity of the Corporation's website. We have not been engaged to report on the integrity of the Corporation's website. We accept no responsibility for any changes that may have occurred to the financial statements and statement of service performance since they were initially presented on the website.

The audit report refers only to the financial statements and statement of service performance named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements and statement of service performance. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and statement of service performance as well as the related audit report dated 3 October 2012 to confirm the information included in the audited financial statements and statement of service performance presented on this website.

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

Remuneration of employees

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

	Consolidated	
	2012	2011
$100,000 – $110,000	94	73
$110,000 – $120,000	50	39
$120,000 – $130,000	40	36
$130,000 – $140,000	28	26
$140,000 – $150,000	25	22
$150,000 – $160,000	24	16
$160,000 – $170,000	10	9
$170,000 – $180,000	8	11
$180,000 – $190,000	6	8
$190,000 – $200,000	7	3
$200,000 – $210,000	3	3
$210,000 – $220,000	4	1
$220,000 – $230,000	1	1
$230,000 – $240,000	–	4
$240,000 – $250,000	4	3
$250,000 – $260,000	2	2
$260,000 – $270,000	1	1
$270,000 – $280,000	2	1
$280,000 – $290,000	1	1
$290,000 – $300,000	1	1
$300,000 – $310,000	–	3
$310,000 – $320,000	–	–
$320,000 – $330,000	–	2
$330,000 – $340,000	3	1
$340,000 – $350,000	–	3
$350,000 – $360,000	–	–
$360,000 – $370,000	–	–
$370,000 – $380,000	2	–
$380,000 – $390,000	1	1
$390,000 – $400,000	1	–
$430,000 – $440,000	1	–
$440,000 – $450,000	–	1
$450,000 – $460,000	1	–
$470,000 – $480,000	–	1
$490,000 – $500,000	1	–
$510,000 – $520,000	1	–
$520,000 – $530,000	–	2
$530,000 – $540,000	2	–
$540,000 – $550,000	–	1
$550,000 – $560,000	1	–
$570,000 – $580,000	1	–
$580,000 – $590,000	1	–
$600,000 – $610,000	–	1
$610,000 – $620,000	1	–
$670,000 – $680,000	–	2
$720,000 – $730,000	1	–
$750,000 – $760,000	1	–
	330	**279**
Average remuneration of above employees	**$154,931**	**$155,235**

40 staff received a redundancy payment or settlement payment in 2012 totalling $1,314,584 (2011: 24 staff $578,949).

PART TWELVE

Glossary

Accredited Employer

An employer who has signed a contract with ACC taking responsibility for the management and costs of their employees' work-related injuries and illnesses and gradual process diseases for a specific period of time.

Actuarial release

A calculation that allows ACC to isolate and measure the impacts of internal, operational improvements on the liabilities, independent of factors outside ACC's control, such as economic conditions and inflation.

Better@Work

A growing body of international research clearly shows that rehabilitation outcomes are enhanced when injured people recover at work. The term Better@Work also refers to an ACC early intervention service that involves partnerships with treatment providers and helps injured workers to stay at work, where possible, during their recovery.

Cash portfolio

Money ACC has set aside to cover likely expenditure in the near future, as opposed to the reserves portfolio, which is money ACC collects and invests to cover long-term costs.

Certification Project

The Certification Project aims to increase clinicians' awareness of the benefits to injured clients of recovering at work. The project follows previous initiatives aimed at increasing effective rehabilitation. It is expected to have a direct impact on current rehabilitation duration measurements and result in an improvement in the proportion of claims lodged that go on to require weekly compensation.

Common Measurement Tool

A set of survey questions New Zealand government agencies can use to measure their own customer satisfaction levels and identify service delivery improvements. It also allows for comparisons with other government agencies.

Credit exposure

ACC's potential loss in the event of a debtor defaulting on money owed.

Crown entity

Section 7 of the Crown Entities Act 2004 defines a Crown entity. The definition refers to five categories of Crown entity – statutory entity, Crown entity company, Crown entity subsidiary, school boards of trustees and tertiary education institutions. ACC is a Crown agent, which is a type of statutory entity. Crown agents are required to give effect to Government policy when directed by the responsible Ministers.

Depreciation and amortisation

Accounting terms relating to the allocation of the cost of an asset to the operating cost over the course of its useful life. If it is a tangible asset (e.g. computer hardware, property) this is called depreciation, and if it is intangible (e.g. computer software, intellectual property, brand) it is called amortisation.

Elective surgery

Non-urgent surgery provided to injured people covered by the Scheme.

Experience rating

An insurance system in which the past claims behaviour of the insured party is taken into consideration when setting the premium (levies) that the business or person will be charged. In this case, it is a system whereby businesses that have good safety records pay lower levies than those from a similar business sector with poor safety records.

Full funding

An insurance model in which funds to cover all the costs of a claim, both now and in the future, must be collected in the same year in which the event giving rise to the claim occurs. In the Accounts funded by levy collection, ACC is moving to this model from pay-as-you-go, in which funds are collected to cover the claim costs paid during that year (see page 150 for the definition of pay-as-you-go).

Funding ratio

A comparison between the sum of funds held by a specific ACC Account and the outstanding claims liability of that Account. Under a fully funded programme, these amounts would be roughly equal. ACC is moving towards full funding for the three Accounts funded by levy collection.

Hedged/Unhedged

This report uses the terms 'hedged' and 'unhedged' in the context of foreign exchange exposures arising from offshore investments. Without hedging, foreign investments involve both the risk that the value of the foreign investments could decline in price in terms of their home currencies, and the risk that the foreign currencies could depreciate in relation to the New Zealand dollar. Such investments are unhedged with respect to foreign exchange rates. Investors such as ACC can offset the risk of losing money through a depreciation of the foreign currency by entering into derivative contracts that would return positive value to ACC if that foreign currency were to depreciate. When an investor has offset the foreign exchange risk associated with an investment in this manner, the investment is described as hedged with respect to foreign exchange rates.

Investment benchmarks

A hypothetical neutral investment portfolio that has been identified as an appropriate default position for the positioning of an ACC investment portfolio. Such benchmarks are typically well diversified and designed to be representative of a particular investment market. Typically, they are constructed according to a set of rules that ensure that the composition of the hypothetical portfolio will only change gradually over time. The NZSE-50 index for New Zealand equities is a well-known example of a commonly used benchmark index. Having identified these investment benchmarks, ACC can use them to gauge the performance of its investment portfolios by comparing actual performance with the performance of the benchmarks.

New Zealand Injury Prevention Strategy (NZIPS)

The whole-of-government strategy for reducing the incidence and severity of injury in New Zealand. This is a policy framework under which specific action plans for particular areas are developed. The Secretariat monitors progress against the whole-of-government strategy.

Non-Earners' appropriation

Money that ACC receives from the Government to cover the costs of injuries to people who are not working, and therefore not paying levies. These include older people, children and those receiving benefits.

Outperformance

Achieving a higher return on investment than the agreed investment benchmark.

Outstanding claims liability

An estimate of the amount of money ACC needs to put aside now to meet the future cost of all claims that have already occurred. The estimate considers returns on investments ACC makes, likely changes in rehabilitation and compensation costs, expected lengths of the claims, economic conditions and a number of other factors.

Partnership Programme

A programme that allows an employer to act on behalf of ACC, managing workplace injuries for their employees and providing entitlements under the AC Act in relation to work-related personal injuries and illnesses.

Pay-as-you-go

Prior to 1999 (2001 for non-earners) ACC was managed under a pay-as-you-go model, whereby funds were not set aside to meet future costs and levies were sufficient only to cover the annual cost of injuries. Under pay-as-you-go, the responsibility for paying for the future costs of injuries that had already been incurred was deferred for future generations of levy payers. The Government has set a legislative requirement that ACC must be fully funded by 2019.

Pooled funds/Collective investment funds

Investment entities in which a number of investors have contributed funds and the nominated fund manager makes decisions about how to invest the total sum. Individual investors do not have control of which specific shares or bonds are purchased.

Reserves portfolio

Money ACC has set aside to cover the future costs of claims that have already occurred. This is held separately from the cash portfolio, which is the money ACC has set aside to be available for short-term expenses.

Social rehabilitation

Assistance provided to injured people covered by the Scheme to restore their independence to the maximum practicable extent. ACC does this by providing assistance such as home help and child care and equipment such as wheelchairs.

Statement of Intent

This document is produced by ACC and reviewed by the Government. It shows how the yearly budget will be allocated to fulfil the priorities outlined in the Strategic Plan and to meet Government performance standards.

Stay at Work

Stay at Work is a service which focuses on vendors working with clients and key stakeholders such as their employer, whānau, and treatment provider to remove any barriers so the client can return to work as soon as possible when they are expected to be able to either return to their pre-injury employment or carry out a temporarily modified job with their current employer.

Treatment injury

An injury caused by medical treatment as described in section 32 of the AC Act.

Treatment providers

Health professionals in the public and private sectors who are contracted by ACC to provide treatment for injured people covered by the Scheme, e.g. general practitioners, physiotherapists.

Vocational rehabilitation

Assistance provided to help a person keep working in their current job, or find another job that is suitable considering their injury and skills, or equip them to return to suitable employment.

PREVENTION. CARE. RECOVERY.

Te Kaporeihana Āwhina Hunga Whara

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ACC6536 October 2012 Print ISSN 1177–6013 Online ISSN 1177–6021