Service Agreement 2014 - 2015

Minister for ACC and the Accident Compensation Corporation

How the Scheme works for you

How you will contribute

All New Zealanders contribute

Employers
Invoices sent by ACC
Levies paid by employers
$868m
Work account
Pays for injuries caused at work

Employees
Tax deducted from PAYE
Invoices sent by ACC
Levies paid by self-employed
$1,231m
Earners' Account
Pays for injuries caused outside work

All New Zealanders
Levies collected through the Earners' Account and Government funded from general taxation
$255m
Treatment Injury Account
Pays for injuries caused by medical treatment

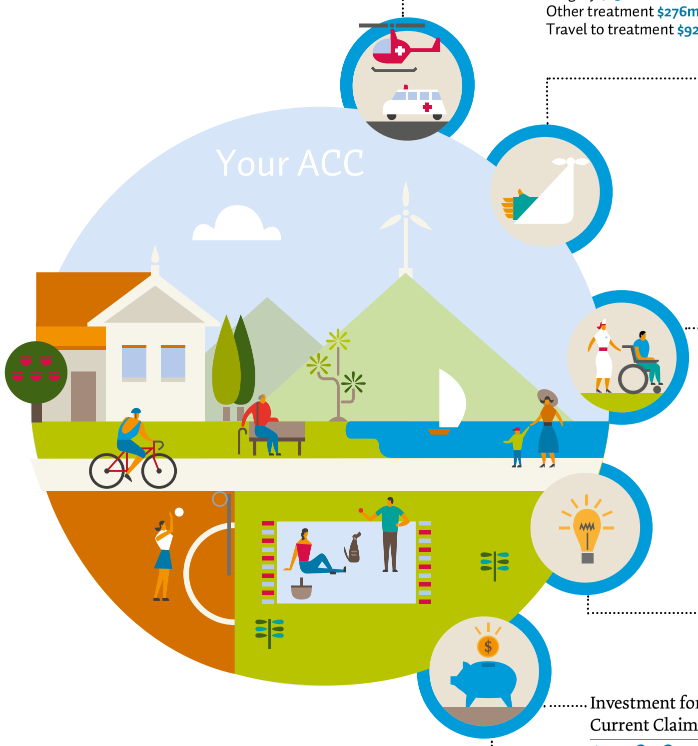
Not Employed
General taxation
Government funded
$872m
Non-Earners' Account
Pays for injuries caused outside work, e.g. children, pensioners, beneficiaries

Motor Vehicle Owners and Drivers
Petrol tax and motor vehicle licensing fee
$1,017m
Motor Vehicle Account
Pays for all road-related injuries

ACC's Investment Earnings
$1,473m

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

How you will benefit



Treatment and Emergency Travel
$1,470m
Visits to a doctor or GP $130m
Physiotherapy $105m
Imaging including X-rays $110m
Hospital accident and emergency $459m
Surgery $298m
Other treatment $276m
Travel to treatment $92m

Financial Compensation and Vocational Rehabilitation
$1,112m
Financial compensation $1,043m
Rehabilitation to help people back to work $69m

Care and Support
$494m
Rehabilitation back to independence $249m
Carers who support those in the home $214m
Home and vehicle alterations $31m

Injury Prevention
$50m

Investment for Future Costs of Current Claims
$27,898m

ACC's forecast financial position at 30 June 2015

$29,165m	–	$28,197m	=	$968m
Assets and investments that ACC currently has (net assets excluding outstanding claims liability)		The amount ACC needs to cover the cost of current claims (outstanding claims liability)		Net assests

Contents

Service Agreement

for the year ending 30 June 2015 between the Minister for ACC and the Accident Compensation Corporation

This Service Agreement is required under the Accident Compensation Act 2001 and it also constitutes the annual Statement of Performance Expectations for the purposes of the Crown Entities Act 2004 – both as amended by the Crown Entities Amendment Act 2013.

Hon Judith Collins	Paula Rebstock	Trevor Janes
Minister for ACC	**Board Chair**	**Deputy Chair**
Dated 23 June 2014	**Dated 18 June 2014**	**Dated 18 June 2014**

How the Service Agreement aligns with our other accountability documents

Following amendments to the Crown Entities Act in 2013, there have been a number of changes to our accountability documents. We have three key accountability documents:

Statement of Intent		Service Agreement		Annual Report
Covers a four-year period and outlines our medium-term strategic intentions	>	Annual agreement with the Minister for ACC setting out the services we will deliver and the expected performance standards	>	Annual report that enables stakeholders to compare our actual performance with expected performance

Purpose of the Statement of Intent

Our Statement of Intent summarises our strategic intentions for the next four years. It includes our medium-term outcomes, our vision, our areas of focus and how we assess our performance overall using a public value measurement approach. Our Statement of Intent also summarises how we maintain our organisational health: our people, our systems and our risk management framework.

Our Statement of Intent 2014-2018 can be found at www.acc.co.nz.

Purpose of the Service Agreement

The Service Agreement (the Agreement) is between the Minister for ACC (the Minister) and the Accident Compensation Corporation (ACC).

The Service Agreement outlines for the forthcoming year:

- the initiatives planned to progress us towards our strategic intentions
- the quality and quantity of services to be provided by ACC
- the expected cost of delivering those services
- the performance measures, targets and related information necessary for the Minister to assess our performance
- the nature and frequency of reporting requirements against this Agreement
- how we will deliver our outputs: injury prevention, claims management, levy setting and collection, and investment management.

The Service Agreement outlines initiatives and outcomes that ACC will deliver. It does not impose corresponding obligations on the Minister.

Purpose of our Annual Report

Our Annual Report provides information on our progress in relation to our strategic intentions (as per our Statement of Intent) and reports on our progress against our initiatives during the year. The Annual Report also provides a summary of our actual results against all of the performance measures included in this Agreement.

Our Annual Reports can be found at www.acc.co.nz.

SECTION 1:

The Government's key priorities

The Government's key priorities for ACC in 2014/15 are outlined in the letters of expectation to ACC from the Minister for ACC and the Minister of Finance. These are:

- improve public trust and confidence in ACC
- improve the management and security of private information
- provide high-quality services for clients
- maintain a focus on financial sustainability and levy stability
- implement practical and cost-effective new injury prevention initiatives
- partner with the Ministry of Business, Innovation and Employment (MBIE) and WorkSafe New Zealand to effect safer workplaces
- support the early resolution of disputes
- implement any other Government initiatives that arise during the year
- deliver against the expectations outlined for ACC's investment management function, namely continuing the focus on longer-term returns, managing investment expenses, monitoring the use of derivatives, reviewing investment decisions, informing Ministers regarding key decisions and collaborating where possible to deliver efficiencies.

ACC will respond to the Minister for ACC's other expectations including:

- business planning: consult Treasury and MBIE in setting strategic and operational priorities and any initiatives that have impacts on expenditure in the Non-Earners' Account, and Treasury on performance measures and targets for the upcoming year
- communications: straightforward and simple, with no surprises, supported by meetings at regular intervals with the Minister for ACC
- continue to work constructively and collaboratively with the Minister's advisors, Treasury (monitoring) and MBIE (policy)
- work with MBIE to support the introduction of an amendment bill to clarify, provide greater certainty on and improve the workability of the Accident Compensation Act 2001 (AC Act)
- take a positive and active role in all-of-government initiatives through interacting with the health sector to drive continuing improvements in health outcomes for New Zealanders.

During 2014/15 ACC will be subject to a Performance Improvement Framework review. These reviews are intended to help agencies to develop four-year performance excellence horizons.

The 2014/15 letters of expectation from the Minister for ACC and the Minister of Finance are attached in Appendix 1.

SECTION 2:

Our strategic intentions

During the next four years we expect to:

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

Aligning our strategic intentions to our outputs

Our functions and operations are organised to deliver against our five strategic intentions and the Government's expectations. We deliver them through our four core outputs, which align to the role of ACC as described by the AC Act.

There is clear alignment between our strategic intentions and our outputs as demonstrated in the diagram below.

Given that there is good alignment between the strategic intentions and our outputs, many of the measures are the same. We have indicated where this is the case.

Monitoring progress against our strategic intentions

This Agreement summarises our key initiatives under each of our strategic intentions for the forthcoming year and sets out the performance measures on which we will report quarterly to assess whether our activities are making a difference. These performance measures are the same as those summarised in our Statement of Intent 2014-2018.

We use four categories to provide an assessment of the public value that we have delivered.

- **Reach** – the proportion of the New Zealand population served.
- **Customer** – the quality and effectiveness of the services provided.
- **Impact** – how effective we are at delivering the desired outcomes.
- **Cost effectiveness** – value for money and financial sustainability.

Each measure has a target for each year from 2014/15 to 2017/18.

Assessing how well we have delivered services within each of our outputs

We have set performance measures that will assess the quality and cost effectiveness (and in some cases the timeliness) of our delivery of services within each output and we will report on these quarterly.

SECTION 3:

Our initiatives and forecast performance

The following pages provide objectives, initiatives for the 2014/15 year and measures for each of our strategic intentions.

Injury prevention

Government's expectations	What do we want to achieve?	Our areas of focus
• Implement practical and cost-effective new injury prevention initiatives. • Partner with WorkSafe New Zealand and MBIE to effect safer workplaces.	Increase our effectiveness in reducing the incidence and severity of injury in New Zealand.	• Target injury prevention investments to reduce Scheme costs. • Deliver effective injury prevention programmes. • Embed the investment framework approach throughout the injury prevention portfolio. • Ensure sound governance through an injury prevention investment committee comprising senior managers from across the business. • Lead the cross-government Injury Prevention Work Plan to deliver research, insights and activities that support the whole-of-government approach to reducing the incidence and severity of injury. • Develop cross-government relationships, particularly with MBIE and WorkSafe New Zealand, to reduce the incidence and severity of injury in the workplace.

How will we achieve this?

Initiative	Actions	By when	Benefits
Target injury prevention investment and improve effectiveness of programmes.	• Target new and existing injury prevention programmes in the seven areas of greatest claim cost: falls, road, work, treatment injury, sport and recreation, lifting and carrying strain, and assault (including all intentional harm).	Quarter 4	• Injury prevention activity can be clearly tied to specific outcomes. • Improved returns on investment and a reduction in claims against forecasts. • Reduced injury across the seven areas of greatest claim cost.
	• Require that all programmes have clear, tangible and targeted outcomes approved by the investment committee.	Quarter 4	
	• Design programmes by profiling the characteristics of the target injury events and populations.	Ongoing	
	• Drive effectiveness in investment performance by evaluating new and existing injury prevention programmes according to their value, strategic fit, execution effectiveness and benefit-realisation timeframes, and invest in a balanced portfolio.	Ongoing	

Initiative	Actions	By when	Benefits
Deliver effective injury prevention programmes.	• Deliver programmes that address citizens' needs and drive behaviour changes. • Deliver programmes that raise awareness and understanding of injury prevention.	Ongoing	• Reduced incidence and severity of injury in New Zealand.
Lead the cross-government Injury Prevention Work Plan.	• Create a clear cross-government understanding of the purpose and approach of the work plan, and how we will lead and coordinate activity. • Target new areas to support the delivery of the Government's injury prevention outcomes where there is a compelling case to work together to enhance government's impact. • Work with stakeholders so that areas of focus, decisions and activities are based on input from all relevant stakeholders and robust, evidence-based analysis and insight. • Target the impacts of sexual violence in New Zealand by developing a primary prevention programme of work in partnership with other government agencies.	Quarter 2 Ongoing Ongoing Ongoing	• Produce tangible social and/or economic benefits for New Zealand. • Contribute to reduced workplace fatalities and serious injuries: 10% by 2016 and 25% by 2020.
Partner with WorkSafe New Zealand and MBIE to effect safer workplaces.	• Create a partnership approach whereby each organisation's activity takes into account the others', creating a package of interventions to reduce the scale and severity of injury in the workplace. • Target high-risk customer segments by implementing a three-year joint work injury prevention action plan with WorkSafe New Zealand and MBIE. • Partner with WorkSafe New Zealand to develop and implement the Safety Star Rating System that will drive a safety culture and reduce injury rates.	Ongoing Quarter 1 Quarter 2	• Increased levy payer satisfaction. • Reduced work-related claims.

How will we know we have achieved this?

	Measure	Rationale	Actual 2012/13	Actual Mar 14	Target 2014/15	Target 2015/16	Target 2016/17	Target 2017/18
Reach	Percentage of population who receive compensation or rehabilitation services.	We are focused on reducing the incidence and severity of injury. In partnership with other government agencies we have a number of long-term programmes in place or in development. These measures provide an indication of the success of these programmes.	29%	24% (June forecast: 30%)	30%	29%	28%	27%
	Number of new entitlement claims per 1,000 population.		23	18 (June forecast: 24)	25	24	23	22

Customer experience

Our customers include injured people, levy payers, service providers and injury prevention partners.

Government's expectations	What do we want to achieve?	Our areas of focus
• Provide high-quality services for customers. • Support the early resolution of disputes.	Improve the quality of the experience for our customers, ensuring that customers find it easy to work with us.	• Increase our focus on the customer as the front and centre of our work. • Understand and improve the end-to-end customer experience. • Improve service quality. • Increase online self-service options for customers. • Increase partnering with other agencies and providers to increase service effectiveness.

How will we achieve this?

Initiative	Actions	By when	Benefits
Improve access to hearing loss services.	• Improve the affordability of hearing loss entitlements by lowering the co-payment. • Share costs as fairly as possible across all stakeholders (ACC/employers, the Ministry of Health and clients). A moderately increased ACC contribution will have a low or no impact on the employer levy. • Provide transparency for clients regarding ACC contributions to hearing loss costs and audiologists' fees.	Quarter 1	• Improved access to entitlements for clients. • Increased client satisfaction.
Redesign sensitive claims services.	• Implement the Disley recommendations to provide client-centred services for clients with sensitive claims. • Redesign sensitive claims services to reduce barriers, deliver tailored assessments and improve outcomes for clients.	Quarter 3	• Increased client satisfaction. • Improved outcomes for clients.

Initiative	Actions	By when	Benefits
Improve elective services.	• Complete a review of elective services to improve the client experience. • Design an integrated model of care (surgery and other rehabilitation services) to improve client outcomes. • Design a new elective services contract that supports an integrated model of care.	Quarter 1 Quarter 3 Quarter 4	• Increased client satisfaction. • Improved client experience. • Improved outcomes for clients.
Increase focus on the customer.	• Implement an internal governance group to focus attention on the customer experience. • Enhance the role of external stakeholder committees to provide more opportunities for consultation and feedback. • Implement mandatory customer service training for all our staff.	Quarter 4	• Increased customer satisfaction. • Improved customer experiences.
Redesign priority customer experiences.	• Redesign critical customer experiences (as prioritised by customers) to deliver measurable improvements in service quality.	Quarter 4	• Improved client outcomes. • Increased customer satisfaction.
Implement a more robust customer satisfaction measure.	• Implement a more robust measure of the customer experience to guide a move beyond customer 'satisfaction' to 'advocacy' as a customer experience goal.	Quarter 4	• Increased customer satisfaction.
Improve core system capability.	• Identify an appropriate technology solution to enhance our customer relationship management and digital capabilities (to be implemented in 2015/16).	Quarter 4	• Customers will have more online self-service options and better visibility and management of their personal information.
Improve the experience and outcomes for Māori clients.	• Increase awareness of ethnic variations in the rate of general practitioner referrals to medical and surgical specialists. • Review and change the approach to employment participation for Māori with serious injuries. • Implement ACC's natural supports and provider choice policies to enable appropriate access to quality home and community support services for Māori. • Identify high-injury-risk sectors and establish key Māori business relationships and channels for engagement.	Quarter 4	• Improved outcomes for Māori clients.
Claims management resourcing.	• Ensure resourcing is appropriate to deliver the right service at the right time in light of claim number increases.	Ongoing	• Increased client satisfaction. • Improved rehabilitation outcomes.

How will we know we have achieved this?

	Measure	Rationale	Actual		Target			
			2012/13	Mar 14	2014/15	2015/16	2016/17	2017/18
Customer	Customer satisfaction – clients.	The best measure of how well we are tracking in our efforts to improve the customer experience is by asking our clients and levy payers.	68%	75%	76%	78%	80%	82%
	Customer satisfaction – levy payers.		New	58%	60%	65%	67%	70%
	Cover decision timeliness.	We try to make cover decisions and payments as quickly as possible in order to reduce uncertainty for our clients.	1.3 days	1.2 days	1.3 days	1.3 days	1.3 days	1.3 days
	Average time to commence payments.		10 days	11 days	<11 days	<10.5 days	<10 days	<10 days
	Formal reviews as a percentage of entitlement claims.	If we make the right decisions and communicate effectively with our clients during the process, we can expect most of our decisions to be accepted and understood.	4.3%	3.6% (June forecast: 3.2%)	2.9%	2.7%	2.6%	2.4%
	Percentage of ACC reviews upheld.	If most independent reviews find in our favour, this suggests that we are usually making a correct and fair decision the first time around.	81.3%	84.1%	84.0%	85.0%	86.0%	87.0%
	Average time to resolution for claims with reviews.	When a client asks for a review of an ACC decision, early resolution is important as this is likely to be a stressful time for them.	87 days	89 days	87 days	86 days	85 days	84 days
Impact	Return to work within 10 weeks.	Research confirms that when people make rapid returns to independence or work after injury, their overall health and wellbeing is significantly improved. These measures evaluate how effectively we are supporting our clients to return to work or independence, and whether their returns are sustained.	70.3%	68.6%	70.3%	70.5%	70.7%	70.9%
	Durable-return-to-work rate.*		78%	Annual	1% higher than Australia			
	Return to independence for those not in the workforce.		83%	86%	86%	86%	87%	87%
	Number of long-term clients returned to independence in the previous 12 months.	We continue to work with long-term clients so they can have as full a role in society as possible.	2,470	1,669 (June forecast: 2,449)	2,424	2,455	2,493	2,500

We are currently seeing an increase in claims complexity and volumes. If this trend continues it could negatively impact on our forecast rehabilitation performance.

Financial sustainability and governance

Government's expectations	What do we want to achieve?	Our areas of focus
Maintain a focus on financial sustainability and levy stability.	Reduce the cost of injury to New Zealanders by managing the levers that contribute to a financially sustainable Scheme.	• Enable a stable levy path. • Align spending with strategic priorities and customer outcomes. • Enhance integrated information management and analytics to monitor key indicators of Scheme performance. • Support the investment function to continue to outperform benchmarks. • Manage risks effectively.

* *The durable-return-to-work rate is compiled from data published in the Australia and New Zealand Return To Work Monitor, which reports on return-to-work outcomes and injured workers' perceptions of the return-to-work process.*

How will we achieve this?

Initiative	Actions	By when	Benefits
Implement investment data store.	• Design, build and deploy a central data store for investment data, managed in-house by the investment team. • Reduce the number of spreadsheets and bring all investment mandate compliance testing in-house.	Quarter 2	• Improved visibility of our $25 billion of investment assets. • Improved data integrity, reporting, support for investment strategies, internal capability, and disaster recovery capability.
Obtain more accurate and timely budgeting and forecasting information.	• Implement an integrated budgeting and forecasting tool.	Quarter 2	• Greater agility, efficiency, rigour, accuracy and transparency in the key performance management processes. • A better process to understand the performance of the business.
Redevelop our capital allocation model.	• Review and track how the business allocates capital and manages returns on investment.	Ongoing	• Sound investment allocations.
Develop a single source of reliable data for use throughout ACC.	• Manage data as an ACC resource to improve the quality, consistency and governance of dispersed data.	Ongoing	• Consistent, high-integrity data. • Support higher-quality analysis. • Enable better decisions on all initiatives to achieve strategic objectives.
Develop the enterprise-wide risk management and compliance programme.	• Increase risk maturity using the risk maturity model. • Develop and maintain an effective organisational compliance function. • Embed an issues' management framework.	Quarter 4	• Risks are effectively managed. • Decision-making incorporates risk assessment and management.

How will we know we have achieved this?

	Measure	Rationale	Actual 2012/13	Actual Mar 14	Target 2014/15	Target 2015/16	Target 2016/17	Target 2017/18
Cost effectiveness	Percentage of total expenditure paid directly to clients or for services to clients.	Key cost drivers are influenced by underlying claim numbers, the rates at which those claims convert to entitlements, and the average cost of claims. Achieving cost stability requires careful management of controllable costs, ensuring that all expenditure is necessary and cost effective.	74.7%	Annual measure	80.0%	80.0%	80.0%	80.0%
	Total levies and appropriations as a percentage of gross domestic product.	This indicates whether the Scheme is becoming more or less affordable and sustainable for New Zealand.	2.2%	(June forecast: 2.2%)	1.9%	1.9%	1.8%	1.9%
	Health dollars per injury – annual growth relative to outstanding claims liability (OCL) assumptions.	We need to manage rising health care costs that also affect future liabilities and levy rates.	0.13%	Annual measure	0% compared with OCL including 3.5% superimposed inflation	0% compared with OCL including 4.2% superimposed inflation	0% compared with OCL including 4.4% superimposed inflation	0% compared with OCL including 4.2% superimposed inflation
	Ratio of this year's total levies to the total claims incurred for this year's accidents over time.	This provides an indicator of how well levies are matched to the costs incurred each year as a result of accidents, ensuring intergenerational fairness.	1.11	Annual measure	0.90 - 1.10	0.90 - 1.10	0.90 - 1.10	0.90 - 1.10
	Investment performance after costs relative to benchmark.	The quality of our investment management can only be gauged by comparing our returns with what a similar fund (under different management) might be expected to achieve. This is done through the use of a blended market average benchmark, which provides a like-with-like comparison with other funds.	1.33%	0.17%	0.30%	0.30%	0.30%	0.30%
	Funding ratio.	The Scheme is managed through five Accounts, with each providing a specific type of cover. There can be no cross-subsidy from one Account to another.	91.7%	100.2%	103.4%	105.0%	106.0%	107.1%
	Returns from insurance operations.	This measures our internal operational performance, excluding gains or losses driven by external economic factors.	$2,729m	$1,244m	$868m	$506m	$378m	$445m

Trust and confidence

Government's expectations	What do we want to achieve?	Our areas of focus
Improve public trust and confidence in ACC.	Enhance ACC's public image and improve public trust and confidence.	• Increase awareness of how we support communities. • Partner with our providers and other sector agencies to improve services. • Increase the focus on injury prevention as part of our value proposition. • Make it easy for people to do business with us.

How will we achieve this?

Initiative	Actions	By when	Benefits
Refresh our communications strategy.	• Embed a new customer-oriented vision and values that will be the foundation for our communication activities and our products, services and organisational culture. • Identify priority activities that will help New Zealanders to better understand what we are here to do for them at each stage of their lives and develop a detailed plan to implement these initiatives. • Refocus sponsorship activity in accordance with the injury prevention principles of the Scheme.	Quarter 4	• Increased public trust and confidence. • Improved public understanding of our role in the Kiwi way of life. • Improved public awareness of how we support community injury prevention.
Social media.	• Implement stage two of the initiative to participate in social media by contributing content about ACC in order to dispel misconceptions on Scheme issues.	Quarter 4	• Increased public trust and confidence. • Improved public understanding of our role in the Kiwi way of life.

How will we know we have achieved this?

			Actual		Target			
	Measure	Rationale	2012/13	Mar 14	2014/15	2015/16	2016/17	2017/18
Customer	Public trust and confidence.	The way the public views ACC is a useful indicator of how effectively we have communicated the value that ACC delivers and demonstrated this in our interactions with levy payers, clients, providers and other stakeholders.	47%	59%	60%	62%	65%	70%

Privacy

Government's expectations	What do we want to achieve?	Our areas of focus
Improve the management and security of private information.	Significantly reduce privacy breaches from all aspects of our business and operations.	• Embed privacy by design into our systems and processes. • Proactively manage privacy risk. • Improve information flows and exchanges with stakeholders and providers.

How will we achieve this?

Initiative	Actions	By when	Benefits
Implement independent privacy report recommendations.	• Continue to embed improvements made to address the recommendations in the independent privacy report.	Quarter 4	• Increased public trust and confidence.
	• Complete a follow-up independent review of privacy and security of information.	Quarter 1	• Increased staff engagement.
Incorporate privacy by design into normal business.	• Develop a culture and business processes focused on privacy.	Quarter 4	• Increased public trust and confidence. • Increased staff engagement.

How will we know we have achieved this?

		Actual		Target			
Measure	Rationale	2012/13	Mar 14	2014/15	2015/16	2016/17	2017/18
The rolling three-month average of privacy breaches.	We deal with confidential and sensitive information for a large number of people and entities. The type of information we hold, such as health and financial information, is the most private kind. It is imperative that a zero tolerance of privacy breaches is a foundation element of our culture and that we monitor our progress towards achieving this.	36	21	12	12	12	12

SECTION 4:

Forecast performance against output delivery

This section sets out the outputs that we are funded to provide. Outputs are the actual products and services that ACC provides to its stakeholders.

The information includes:

- a brief explanation of what is intended to be achieved within each output
- activity information – this is contextual or service demand information to provide greater context for our performance measures. Significant variations in demand can influence the achievement of our performance measure targets
- an explanation of how our performance will be assessed – where possible these measures evaluate our performance in terms of quality, cost and timeliness. There is duplication between the measures reported against our strategic intentions and those reported within the outputs. For claims management we have identified a number of additional output measures.

Breakdown of budget against output class

Budget 2014/15 ($million)	Administration	Claims paid	Revenue
Output class 1 – Injury prevention	50		
Output class 2 – Levy setting and collection	40		4,243
Output class 3 – Investment management	62		1,473
Output class 4 – Claims management	403	3,094	
Total	**555**	**3,094**	**5,716**
Other operating costs	68		
Total ACC	**623**	**3,094**	**5,716**

OUTPUT 1:

Injury prevention

What is intended to be achieved?

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

We can only undertake an injury prevention activity if it is likely to result in a cost-effective reduction in actual or projected levy rates or the Non-Earners' appropriation. This requirement means that we focus our effort on injuries that affect the Scheme, such as high-cost and high-volume claims that affect claim costs, the outstanding claims liability and levies.

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

A part of our portfolio of injury prevention programmes (e.g. sexual violence and family violence) may at first result in an increase in claims as there is currently significant underreporting.

How will we know we have achieved this?

Injury prevention is an area where it can be challenging to identify all the environmental factors that have an influence to measure how effective a particular programme has been. We evaluate the impacts of individual programmes and initiatives and we monitor the overall incidence and severity of injury to evaluate whether our work and that of our partners is having an effect.

We reviewed our injury prevention strategy during 2013/14 and we are implementing a new investment framework. Existing and new programmes will be reviewed so they have clear, tangible and targeted outcomes approved by the injury prevention investment committee. Each programme will be redesigned and then evaluated on its value, strategic fit, execution effectiveness and benefit-realisation timeframe. The investment committee will approve a portfolio of programmes that balances these benefits to meet ACC objectives. We will report quarterly on the return of investment for specific programmes.

Injury prevention >

Quality and cost measures

- Number of new entitlement claims per 1,000 population is reducing.
- Percentage of population who receive compensation or rehabilitation services is reducing.

Effectiveness measure	Rationale	Actual 2012/13	Actual Mar 14	Target 2014/15	Target 2015/16	Target 2016/17	Target 2017/18
The portfolio of injury prevention investments approved during 2014/15 will have an assessed positive return on investment.*	We take a portfolio approach. This means overall we expect our injury prevention programmes to deliver a positive return on investment.	New measure	New measure	1:1	1:1	1:1	1:1
All injury prevention programmes will be evaluated by the Investment Committee by March 2015. As a result of this evaluation, they will either be: · stopped; · have a managed exit plan in place; or · be included in the injury prevention investment portfolio return on investment measure above.	To ensure all injury prevention programmes have been evaluated against the new injury prevention investment criteria and appropriate actions are taken as a result.	New measure	New measure	100%	Not applicable		

* *All new injury prevention investments in 2014/15 will be approved by the ACC Injury Prevention Investment Committee, which requires a calculation assessing the return on investment over time.*
Those assessments will be combined into a portfolio assessment where 'savings in claims' will be divided by 'costs of the programmes in the portfolio' and this should be positive (i.e. greater than 1:1).
The assessments are a prospective analysis and include the lifetime cost of the claims for the respective programmes. A retrospective analysis is undertaken at critical decision making points in the programmes' lifecycle.
This measure only includes investments that have been evaluated by the Investment Committee, under the new investment framework and processes. Any investments that have not yet been through the Investment Committee for evaluation are excluded.

OUTPUT 2:

Levy setting and collection

What is intended to be achieved?

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

In order for us to deliver services we must collect revenue. Through our levy-setting process we calculate our future revenue needs for each Account. We recommend levies that are sufficient to cover the costs of claims incurred in that year.

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

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

			Actual	Forecast	
Account	Type of cover	Source of funding	2013/14 Combined average levy (excl. GST)	2014/15 Combined average levy (excl. GST)	2014/15 Levy revenue ($million)
Levied Accounts – revenue is collected through ACC levies					
Work Account	Work-related injuries.	Employers. Self-employed. Private domestic workers.	$1.15 per $100 liable earnings	$0.95 per $100 liable earnings	868
Earners' Account	Non-work-related injuries to earners, e.g. home, sport.	Employees Self-employed Private domestic workers.	$1.48 per $100 liable earnings	$1.26 per $100 liable earnings	1,231
Motor Vehicle Account	Injuries involving motor vehicles on public roads.	Motorists.	$331 (average levy for petrol-driven car including petrol levy and licensing fee)	$331 (average levy for petrol-driven car including petrol levy and licensing fee)	1,017
Non-levied Account – revenue is collected through Government appropriation					
Non-Earners' Account	Injuries to non-earners, e.g. students, older people.	Government appropriation.	N/A	N/A	872
Mixed-funded Account – revenue is collected through ACC levies and Government appropriation					
Treatment Injury Account	Injuries caused by registered health providers.	Earners' and Non-Earners' Accounts.	N/A	N/A	255
				Total	**4,243**

Pre-1999 ACC was funded on a pay-as-you-go basis. Under the AC Act, ACC is required to be fully funded for all pre-1999 injuries by 2019. The Non-Earners' Account and the Government-funded portion of the Treatment Injury Account do not have full funding targets.

Activity information

The table below shows the number of funders, and the levy and appropriation revenue, for each Account.

		Forecast 2014/15
Levy-funded Accounts		
Work Account	Number of employed and self-employed	1,967,000
	Levy revenue ($million)	868
Earners' Account	Number of earners	2,268,000
	Levy revenue ($million)	1,231
Motor Vehicle Account	Number of vehicles	3,199,000
	Levy revenue ($million)	1,017
Government-funded Account		
Non-Earners' Account	Number of non-earners	2,221,000
	Government appropriation ($million)	872
Mixed-funded Account		
Treatment Injury Account	Number of non-earners	2,221,000
	Government appropriation ($million)	102
	Number of earners	2,268,000
	Levy revenue ($million)	153

How will we know we have achieved this?

Customer experience

Financial sustainability

Quality measures

- Levy-payer customer satisfaction is increasing.
- We target the ratio of this year's total levies to the total claims incurred for this year's accidents over time to be between 0.90 and 1.10.

Cost measure

- Total levies and appropriations as a percentage of gross domestic product is reducing.

Funding ratios

We will also measure whether we achieve our forecast funding ratios for the year.

As at 30 June (%)	Forecast 2014	Budget 2015
Work Account	141.9%	148.0%
Earners' Account	131.3%	129.9%
Motor Vehicle Account	99.8%	108.5%
Non-Earners' Account	49.3%	48.2%
Treatment Injury Account	73.6%	75.1%
ACC	**100.4%**	**103.4%**

OUTPUT 3:

Investment management

What is intended to be achieved?

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

ACC's investment portfolios consist of funds that have been put aside to provide for the future costs of injuries that occurred before July 2014 but continue to require ongoing expenditure.

Activity information

Investment earnings are the third principal source of Scheme funding after levies and Government appropriation. ACC had approximately $25 billion of investment funds at the end of March 2014, so a 4% return on these investment funds would generate investment income of about $1 billion per annum. Although historical investment returns have generally been higher than 4% per annum, investment returns can be volatile, and bond yields are lower than they have been in the past (which reduces the returns that ACC can expect from its investment portfolios).

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

	Actual		Forecast
$million	2012/13	Mar 2014	2014/15
Average net funds under management	22,527	25,470	27,898
Investment income	2,090	908	1,473

How will we know we have achieved this?

Financial sustainability

Quality measure

- Investment performance after costs relative to benchmark.

	Actual		Target			
Effectiveness measure	2012/13	Mar 14	2014/15	2015/16	2016/17	2017/18
Investment management costs as a proportion of total funds under management.	0.13%	Annual measure	0.15%	0.15%	0.15%	0.15%

OUTPUT 4:

Claims management

What is intended to be achieved?

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

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

Activity information

The table below shows the recent trends in the number and type of claims we have received. The Scheme is based on legislation and each claim is evaluated to determine whether it meets the requirements of the AC Act. We do not ration our services as demand is determined by the number of covered injuries that occur and the type and amount of services those who have covered injuries are eligible to receive.

Measure	Definition	2009/10	2010/11	2011/12	2012/13	2013/14 (to 31 Mar 2014)
Registered claims.	Total number of registered claims in the period.	1,658,624	1,670,209	1,680,952	1,714,101	1,326,312
Medical-fees-only claims.	Total number of medical-fees-only claims in the period.	1,467,470	1,475,170	1,487,176	1,516,790	1,119,555
Other entitlement claims.	Total number of entitlement claims (all entitlement claims excluding weekly compensation) that receive payments in the period.	112,405	99,976	94,322	93,392	81,678
Weekly compensation claims.	Total number of weekly compensation claims that receive payments in the period.	95,718	85,903	82,573	88,463	70,727
Long-term weekly compensation claims.	Number of clients receiving weekly compensation for more than one year as at the end of the period.	13,157	11,615	10,606	10,398	10,654
New serious injury claims.	Total number of new serious injury claims in the period.	254	208	200	198	188
Fatal claims.	Total number of fatal claims in the period.	1,854	1,446	1,156	1,141	700

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

Expenditure against key cost drivers	Actual		Forecast
$million	2012/13	Mar 2014	2014/15
Non-fatal weekly compensation	758	615	868
Social rehabilitation	419	334	494
Medical treatment	503	401	592
Hospital treatment (elective surgery)	255	208	298
Public health acute services	438	337	459

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

Our staff numbers do not change in response to changes in short-term claim rates; however, staff numbers are adjusted in response to longer-term trends in claim numbers. The table below shows the number of staff (including contractors and excluding corporate staff) who manage claims.

	Actual	Forecast
Frontline staff	Mar 14	2014/15
Direct frontline staff.	1,994	2,038
Indirect frontline staff.	429	439
Total frontline staff.	2,423	2,477

How will we know we have achieved this?

Customer experience

Quality measures

- Customer satisfaction – clients – is increasing.
- Cover decision timeliness is stable.
- Average time to commence payments is reducing.
- Formal reviews as a percentage of entitlement claims are reducing.
- Percentage of ACC reviews upheld is increasing.
- Average time to resolution for claims with reviews is reducing.

Impact measures

- Clients returned to work within 10 weeks are increasing.
- Durable-return-to-work rate is stable.
- Clients returned to independence for those not in the workforce are increasing.
- Number of long-term clients returned to independence in the previous 12 months is increasing.

	Actual		Target			
Effectiveness measure	2012/13	Mar 14	2014/15	2015/16	2016/17	2017/18
Number of complaints to the Office of the Complaints Investigator.	1,645	978	1,240	1,178	1,119	1,063

Assessing cost effectiveness of our claims management operations

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

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

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

		Actual		Target			
	Measure	2012/13	Mar 14	2014/15	2015/16	2016/17	2017/18
Social rehabilitation for serious injuries	Growth in average care package relative to outstanding claims liability (OCL) valuation assumptions.	-2.2% compared with OCL including 2.0% superimposed inflation	Annual measure	0% compared with OCL including 5.0% superimposed inflation	0% compared with OCL including 5.1% superimposed inflation	0% compared with OCL including 5.1% superimposed inflation	0% compared with OCL including 5.1% superimposed inflation
	Proportion of clients with care hours significantly above or below benchmarks.	47%	Annual measure	45%	45%	45%	45%
Rehabilitation	Return to work within six months (182 days).	89.8%	89.2%	90.0%	90.1%	90.3%	90.4%
	Return to work within nine months (273 days).	93.9%	93.6%	93.9%	94.0%	94.1%	94.2%
	Number of clients receiving weekly compensation for more than one year.	10,399	10,654	11,021	11,516	12,063	12,500
	Abatement rate for long-term clients.	13%	13%	14%	16%	18%	20%
Elective surgery outcomes	Proportion of surgery requests accepted.	79.8%	82.9%	83.0%	84.0%	85.0%	85.0%
	Average time taken by ACC to make surgery decisions – accepted requests.	13.1 days	13.2 days	<15 days	<15 days	<15 days	<15 days
	Average time taken by ACC to make surgery decisions – declined requests.	36.2 days	37.2 days	<40 days	<35 days	<35 days	<35 days
	Change in average cost per client compared with OCL.	-0.1% compared with OCL including 5% superimposed inflation	Annual measure	0% compared with OCL including 5% superimposed inflation	0% compared with OCL including 5% superimposed inflation	0% compared with OCL including 5% superimposed inflation	0% compared with OCL including 5% superimposed inflation
	Proportion of clients who go ahead with surgery who are successfully rehabilitated 12 months after being approved for surgery. Note: successfully rehabilitated is defined as no longer receiving ACC support.	84%	86%	86%	87%	88%	90%
	Proportion of clients who are successfully rehabilitated 12 months after requests for surgery have been declined.	95%	96%	95%	95%	95%	95%
Efficiency	Average cost per claim. Administration costs less investment management and injury prevention costs/active entitlement claims.	$2,284	$2,240 (June forecast: $2,405)	$2,572	$2,638	$2,590	$2,410

SECTION 5:

Investment statement

The bulk of ACC's $25 billion investment portfolios represent money that we have put aside in the past to meet the future costs of long-term injuries. The future costs for which these funds are held are expected to exceed significantly the current value of our investment portfolios, but our objective is to pay future claim costs out of our investment portfolios, without the need for any 'catch up' contributions from future levy payers. We are relying on investment income to make up the difference between the amount of money that we have to invest now and the expected future costs that we intend to fund out of the investment portfolios.

To this end, we have to balance two often-competing investment objectives: (1) enhancing investment returns, whilst (2) reducing the risk of long-term investment returns being lower than expected. This long-term perspective on investment risk closely fits with how we think about our overall financial risk.

Instead of just focusing on the short-term risks to investment returns, we think about how our investment activities could affect our higher-level objectives of avoiding significant increases in levy rates and maintaining a strong financial position. Practically, this means that we tend to favour long-term investments that we expect to deliver relatively certain income streams for long periods of time. Such investments match our long-term cash flow requirements, and also tend to provide an offset against the risk of declines in interest rates causing upward revaluations of our claims liabilities (which would tend to create a need for levy increases if not offset by strong investment returns).

Intentions for 2014/15

We intend to manage our investments with the objective of obtaining the best possible balance of return and risk. To this end, we will:

- review our strategic asset allocation to ensure that its benchmark asset allocation provides the best possible balance of risk and expected returns for our objectives
- actively manage our investment portfolios with the objective of obtaining better risk-adjusted returns from those portfolios than would be achieved from passive investment.

We expect to start the 2014/15 financial year with a lower percentage of investments held in equity markets than we held at the start of the 2013/14 financial year. This partly reflects our assessment that the apparent rewards that investment markets are 'paying' investors for taking equity market risks have generally reduced in the course of the 2013/14 financial year. The lower proportion of investments held in equities also reflects the fact that our investment portfolios have grown faster than the earnings of levy payers. Hence, if we continued to hold the same percentage of assets in equities, the potential need to make up any investment loss would represent an increasing risk for levy payers.

We intend to continue actively managing all of our investment portfolios. The majority of our investments are actively managed by our own investment staff, whilst about 25% of our investments are managed by external fund managers. During 2014/15 we intend to increase slightly the proportion of our global equity investments that are managed by our investment team. However, the majority of our global (non-Australasian) equity investments will continue to be managed by external fund management companies, and the vast bulk of Australasian investments will continue to be internally managed by our internal investment team.

We intend to increase selectively the resourcing of the investment team during 2014/15. In particular, we will expand the teams responsible for direct (unlisted) investments and the internally managed global equity portfolio.

We are also working on reciprocal collateralisation of our derivative contracts with banks in order to allow us better control over our credit exposures and to improve the derivative pricing that we can access.

We intend to hold our investment costs at a similarly low percentage of portfolio value to that we achieved in 2013/14.

Measuring performance

Our investment performance should ultimately be evaluated by looking at the extent to which ACC's investment portfolios have achieved the objectives of enhancing returns and reducing risk. The investment outcomes that we achieve need to be compared with the outcomes that would have been realistically possible in the context of how investment markets have performed.

Like most institutional investors, we split our investment decision-making into different 'layers'. Whilst it is important to evaluate our overall investment outcomes as a whole, it can also be valuable to consider the different layers of investment decision-making separately, as different aspects of investment decision often need to be evaluated over different timeframes.

Inherently, most investment decisions involve a considerable degree of uncertainty, and the outcomes of a few investment decisions in a short period of time may therefore be regarded as possibly being more due to 'luck' than 'skill'. But with enough time and enough distinct investment decisions to consider, we should expect that any unpredictable positive or negative surprises will average out, such that observed investment performance over a longer timeframe is likely to reflect mainly the quality of the investment decisions rather than the 'noise' of relatively unpredictable fluctuations in investment markets.

The highest layer of investment decision-making involves the setting and review of asset allocation benchmarks. The Board Investment Committee reviews our asset allocation benchmarks on an annual basis. Setting these asset allocation benchmarks involves a trade-off between risk and expected long-run returns.

There are no near-term measures that can meaningfully be used to evaluate our performance in setting asset allocation benchmarks because:

- the trade-off between risk and return means that we cannot just look at either return or risk in isolation
- the focus on long-term returns and the fact that we only have a few key asset classes to choose from means that the returns from our asset allocation benchmarks are best measured over a relatively long period of time (at least five years)
- the impacts that investment policy has on our financial risks need to be measured in the context of the relative scale of our investment assets compared with the Scheme's liabilities and leviable income.

For these reasons, our performance in setting asset allocation benchmarks is best evaluated by means of a rigorous study of performance over several years, rather than trying to measure this performance in relation to a single measure over any single year.

The lower layers of investment decision-making involve our investment team (and external fund managers) actively managing investment portfolios with the objective of achieving a better overall return/risk outcome for levy payers than we could achieve through passively investing in each market according to the benchmark asset allocation weights. As the active management of our investment portfolios involves a large number of investment decisions, it is reasonable to expect that unpredictable positive and negative surprises will roughly cancel each other out in most years, such that we can expect the realised outcomes of our active management to reflect the quality of the underlying decision-making in periods of three or more years. As a consequence, our active management of investment portfolios can be measured in a meaningful way, particularly if considered over a timeframe of at least three years.

We measure our overall investment return against a composite benchmark.

Investment costs are not subject to much uncertainty, and it is therefore meaningful to measure our performance on investment costs on a year-by-year basis. We consider that commissions paid to brokers and operating expenses associated with investment properties ought to be subtracted directly from investment income, and that it is more meaningful therefore to measure investment costs after excluding these items.

Controls, benchmarks, policies and procedures

ACC's investment activities are overseen by the Board Investment Committee. This committee consists of four members of ACC's Board plus two external appointees, and has full authority to make decisions for ACC in relation to investments. The Board Investment Committee makes high-level decisions on investment policy, whilst delegating most individual investment decisions to our in-house investment team or to external fund managers.

In delegating investment decisions to internal investment staff, the Board Investment Committee necessarily looks to ensure that these investment decisions are made in ways that are consistent with our higher-level financial objectives. These include:

- specifying investment benchmarks that are to be used to measure investment performance
- specifying how we should measure and take account of risk when measuring investment performance
- setting various limits and controls governing the scale and nature of the investment decisions that we may undertake
- ensuring that there is clear accountability for the various aspects of investment performance
- making sure that we have a strong control environment, to ensure that the limits and controls are enforced and that conflicts of interest are minimised.

We record the benchmarks, controls and limits in our Investment Guidelines. This is an internal document that contains various commercially sensitive limits and rules. However, the key aspects of how it controls ACC's investment activity are described below.

The key decisions that the Board Investment Committee does not delegate include:

- approval of asset allocation benchmarks, establishing the default allocation between investment markets for each of ACC's Accounts
- approval of policy documents, discussing how we will approach various aspects of our investment operation (such as how we set strategic asset allocation, or the approach that we will take to managing a particular investment portfolio)
- approval of changes to our Investment Guidelines, which specify limits to and controls of all aspects of the investment operation
- appointments of external fund managers or custodians
- approval of any investment transactions that fall outside the limits and controls specified in the Investment Guidelines.

How ACC's investments are structured

From a financial perspective, the ACC Scheme is divided into five Accounts, with each responsible for funding certain injuries. These are the Earners', Motor Vehicle, Non-Earners', Treatment Injury and Work Accounts. Each Account invests some funds in ACC's 'Operational Cash Portfolio', in order to have ready funds available to meet near-term expenditure requirements. However, the bulk of the funds held by each Account are invested in the Account's own 'Reserves Portfolio', which consists primarily of long-term investments.

Each Account's Reserves Portfolio is allocated between various asset classes, which are broad groupings of investment markets such as NZ Equities, Global Equities and NZ Index Linked Bonds. As each Account's Reserves Portfolio invests in the same group of asset classes (albeit in differing proportions), we manage the aggregate investment in each asset class as a single investment pool, owned in varying proportions by each of ACC's Accounts. Managing one pool for each asset class helps to reduce cost, and reduces the possibility of different Accounts achieving different returns from the same investment activity.

Many asset classes are divided into more than one portfolio, with different portfolios typically being managed by different portfolio managers or external fund management companies. In most cases, the different portfolios focus on different segments of the broader asset class.

Outside these asset classes, we also use derivatives to manage risk exposures for each Account's Reserves Portfolio.

Key aspects of ACC's Investment Guidelines

Our Investment Guidelines help to limit how much risk we can take by placing the following sorts of constraint on how ACC's funds may be managed.

- Limits on the maximum and minimum proportions of each Reserves Portfolio that may be invested in each asset class.
- Limits on the proportion of each Reserves Portfolio that may be invested in some groupings of asset class (e.g. 'total equity exposure').
- Limits on ACC's overall exposure to particular market risks, taking account of both allocations to asset classes and derivative positions.

- Limits on the proportions of some asset classes that may be invested in particular portfolios.
- Lists of the types of investment that each portfolio is authorised to make.
- Limits on the proportion of each portfolio that may be invested in any particular company or security.
- Limits on the proportions of some portfolios that may be invested in particular market sectors, countries and/or currencies.
- Limits on the proportion of ACC's overall global equity exposure that may be invested in particular regions.
- Limits on the use of leverage, and limits on the proportion of each portfolio that may be held in cash.
- Limits on the extent to which the interest rate sensitivity of fixed-interest portfolios may vary from portfolio benchmarks.
- Limits on the percentage shareholding that ACC may hold in individual companies (measured across all ACC portfolios).
- Credit limits, which limit the total credit exposure that ACC may take to any particular entity (measured in aggregate across all portfolios).
- Limits on the proportions of fixed-interest portfolios that may be invested across all investments of below specified credit ratings.
- Restrictions on short selling.
- Maximum and minimum limits on ACC's unhedged exposure to individual currencies.
- Limits on the size of the derivative exposures that ACC may take.
- Other rules governing the use of derivatives.
- Rules governing the counterparties with which ACC may deal for certain types of investment transaction.
- Rules regarding participation in placements and initial public offerings.
- Rules restricting most portfolios' ability to invest in unlisted companies.
- Descriptions of how various types of risk exposure should be measured.
- Various other rules and limits.
- Benchmarks, objectives and principles of, and approaches to, measuring the performance of individual portfolios and asset classes.
- Ethical investment rules, including lists of securities and sectors in which ACC may not invest.
- Rules and limits (similar to portfolio rules) on how each 'derivative overlay' should be managed.
- Rules governing securities lending.
- Rules restricting borrowing.
- Rules on the procedure for approving any exceptions to the Investment Guidelines.
- Rules on the appointment and review of external fund managers.
- Rules on and restrictions to ACC's ability to grant indemnities or guarantees.

A separate Code of Conduct contains rules about how our investment staff must manage any personal investments and any offers of gifts or hospitality. These rules include reporting and approval requirements.

Ethical investment policy

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

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

The ethical investment policy sets out a framework that:

- requires engagement with companies that have serious environmental, social or governance issues in order to modify their corporate behaviour and improve their performance in relation to ethical issues. This is undertaken directly with the companies or in collaboration with other Crown financial institutions, other investors or the UN PRI Engagement Clearinghouse
- excludes from our investment portfolio companies that undertake activities that are repugnant to the laws of New Zealand and exhibit corporate behaviour that seriously breaches ethical/responsible investment standards. These include tobacco companies and those involved with the development and/or production of anti-personnel mines, cluster munitions, nuclear explosive devices and whale meat processing
- encourages our fund managers to cast proxy votes in a manner that is consistent with the principles of good corporate governance and the ethical investment policy.

UN Principles for Responsible Investment

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

Agreement with other Crown financial institutions

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

SECTION 6:

Forecast financial information

Introduction

The information below sets out the 2014/15 budgets for ACC. Comparative information is based on the forecast financial results for the year to 30 June 2014, prepared as at 31 March 2014.

Variances are shown as favourable or (unfavourable) to ACC.

Result

The budget for 2014/15 is a surplus of $868 million compared with the forecast surplus of $2,353 million for 2013/14. The projected surplus for 2014/15 is lower than the 2013/14 forecast mainly due to:

- levy rate reductions in the Earners' and Work Accounts
- increasing claim numbers
- the reduction in the outstanding claims liability in the 2013/14 year due to an increase in the discount rate and a reduction in inflation assumptions that year.

The budget accumulated surplus (net assets) will therefore increase to $968 million at 30 June 2015.

Statement of comprehensive income

	Forecast	Budget 2014/15					
$million	2013/14	Total ACC	Motor Vehicle Account	Non Earners' Account	Earners' Account	Work Account	Treatment Injury Account
Total levy and other income	**4,670**	**4,243**	**1,017**	**872**	**1,231**	**868**	**255**
Investment income	1,257	1,473	439	155	379	351	149
Less investment costs	61	62	18	7	16	16	5
Net investment income	**1,196**	**1,411**	**421**	**148**	**363**	**335**	**144**
Claims paid	2,941	3,094	445	860	1,018	628	143
Change in unexpired risk liability	146	27			27		
Change in outstanding claims liability	(69)	1,104	245	222	330	61	246
Total claims costs	**3,018**	**4,225**	**690**	**1,082**	**1,375**	**689**	**389**
Injury prevention costs	36	50	15	10	9	16	
Operating costs	459	511	52	103	182	153	21
Surplus/(deficit)	**2,353**	**868**	**681**	**(175)**	**28**	**345**	**(11)**

Statement of changes in reserves (equity)

$million	Forecast 2013/14	Budget 2014/15 Total ACC	Motor Vehicle Account	Non Earners' Account	Earners' Account	Work Account	Treatment Injury Account
Reserve – opening balance (deficit)	(2,253)	100	(11)	(2,799)	1,651	2,175	(916)
Net surplus (deficit)	2,353	868	681	(175)	28	345	(11)
Reserve – closing balance (deficit)	100	968	670	(2,974)	1,679	2,520	(927)

Funding ratio

%	Forecast 2013/14	Budget 2014/15 Total ACC	Motor Vehicle Account	Non Earners' Account	Earners' Account	Work Account	Treatment Injury Account
Assets less other liabilities/ outstanding claims liability	100.4%	103.4%	108.5%	48.2%	129.9%	148.0%	75.1%

Levy revenue

Rates

Average levy rates (GST exclusive) and funding bases as detailed below have been used to prepare the budget.

Account	2013/14	2014/15
Motor Vehicle	$331 per vehicle through licensing fees and petrol levy.	$331 per vehicle through licensing fees and petrol levy.
Earners'	$1.48 per $100 liable earnings.	$1.26 per $100 liable earnings.
Work	$1.15 per $100 liable earnings.	$0.95 per $100 liable earnings.

Revenue

The $4,243 million levy revenue budget for 2014/15 is $427 million lower than forecast for 2013/14. The budgets for levy revenue incorporate:

- levy rates as approved for the 2014/15 year and forecast rates effective from 1 April 2015
- updated forecasts of earnings in employment, petrol consumption and vehicle numbers
- the current approved Non-Earners' Account appropriation
- earnings in employment derived from economic forecasts accounting for employment growth and earnings' growth. This results in an increase in liable earnings of 3.3% compared with the 2013/14 year's earnings
- changes in motor vehicle registrations and petrol consumption (number of vehicles 1.0% increase and petrol consumption 3.4% decrease) forecast for the 2014/15 year
- non-earners' revenue, including the non-earners' portion of the Treatment Injury Account, which has decreased from $1.113 billion to an approved level of $0.961 billion.

Non-Earners' Account appropriation

The Minister for ACC purchases from ACC the outputs consistent with the provisions of the AC Act in respect of non-earners (other than motor vehicle injury). This includes the funding requirements of the Treatment Injury Account in respect of treatment injuries to non-earners. This funding is appropriated within Vote ACC.

Output expense ($million)	Budget 2014/15	Relevant ACC activity	Relevant ACC output class
Case management and supporting services.	121	Setting, invoicing and collecting levies – the Vote ACC appropriation process.	2 – levy setting and collection
		Management of investment assets.	3 – investment management
		Lodgement of new claims and making cover decisions. The costs of determining, processing, paying and monitoring payments to treatment and service providers and clients. Also includes the cost to ACC of managing claims with the goal of returning clients to independence.	4 – claims management
		Development and delivery of programmes to reduce the incidence and severity of injury.	1 – injury prevention
Rehabilitation entitlements and services.	511	Payments to providers for services, including social rehabilitation, medical treatment and vocational rehabilitation.	4 – claims management
Public health acute services.	298	Funding via the Ministry of Health to provide services to injured people in hospitals during the acute phase of their treatment.	4 – claims management
Compensation entitlements.	31	Direct payments of entitlements to clients including weekly compensation, independence allowances and lump sum payments.	4 – claims management
Total	**961**		

Claims paid

$million	Forecast 2013/14	Budget 2014/15	Variance F/(U)
Rehabilitation			
Treatment	1,376	1,470	(94)
Vocational rehabilitation	58	69	(11)
Social rehabilitation	456	494	(38)
Total	**1,890**	**2,033**	**(143)**
Compensation			
Income maintenance	837	868	(31)
Other compensation and benefits	214	193	21
Total	**1,051**	**1,061**	**(10)**
Total cash cost of claims	**2,941**	**3,094**	**(153)**

Rehabilitation costs are budgeted to increase by $143 million (7.6%) to $2,033 million, driven mainly by increasing claim numbers and inflation.

Income maintenance costs are budgeted to increase by $31 million (3.7%) to $868 million, reflecting an increase of 4% in claim numbers during the year.

Other compensation and benefit costs are budgeted at $193 million, a decrease of $21 million (9.8%), reflecting a decrease in the capitalisation of independence allowance payments. The decrease in the budget is entirely due to the timing of the capitalisation of payments and is consistent with the experience in recent years.

Increase in outstanding claims liability

The future costs of claims incurred are estimated allowing for future inflation (including superimposed inflation for certain benefit types) and payment decay/continuance rates derived from Scheme experience. Those costs are discounted back to present value using a series of forward discount rates. The liability is forecast to increase from $27,093 million to $28,197 million during 2014/15, an increase of $1,173 million. This reflects the 31 December 2013 valuation, with adjustments to reflect economic assumptions at 31 March 2014.

Outstanding claims liability ($million)	Forecast 2013/14	Budget 2014/15	Variance F/(U)
Value at year open	27,162	27,093	
Value at year end	27,093	28,197	
Increase/(decrease) in claims liability	**(69)**	**1,104**	**(1,173)**

Increase in unexpired risk liability

A liability adequacy test is performed to assess whether the unearned levy liability is sufficient to meet all expected future cash flows relating to future claims against current insurance contracts. Any shortfall in the unearned levy liability is taken up in the balance sheet as an unexpired risk liability and the movement for the year is recognised in the income statement.

Unexpired risk liability ($million)	Forecast 2013/14	Budget 2014/15	Variance F/(U)
Value at year open	42	188	
Value at year end	188	215	
Increase in liability	**146**	**27**	**119**

The unexpired risk liability at 30 June 2015 is forecast to increase by $27 million from an estimated $188 million at 30 June 2014. This reflects reducing levy rates that are insufficient to meet the discounted cost of new claims to be incurred in future periods, for which levy revenue has been accounted at 30 June 2015.

Operating costs

ACC's operating costs comprise claims handling, levy collection and other operating costs. The 2014/15 operating costs budget of $511 million is $52 million higher than the $459 million forecast for 2013/14. This increase reflects the current estimate of the impact on operating costs of the organisational change project of $37 million.

Expenditure by classification ($million)	Forecast 2013/14	Budget 2014/15	Variance F/(U)
Claims handling	366	403	(37)
Levy collection	38	40	(2)
Other operating	55	68	(13)
Total operating costs	**459**	**511**	**(52)**

Investment income

Investment income is calculated using forecast returns based on a methodology that provides an unbiased estimate of ACC's median returns. The projected change in rates of return from year to year reflects market expectations about the returns expected in each of the next 20 years.

Investment income for the 2014/15 year has been calculated by Account. The projected rate of return in 2014/15 ranges from 4.78% to 5.33% per annum.

Statement of financial position

As at 30 June ($million)	Forecast 2013/14	Budget 2014/15	Variance F/(U)
Total reserves	**100**	**968**	**868**
Assets			
Investments	27,694	29,637	1,943
Other assets	3,285	3,387	102
Total assets	**30,979**	**33,024**	**2,045**
Liabilities			
Claims liability	27,093	28,197	(1,104)
Other liabilities	3,786	3,859	(73)
Total liabilities	**30,879**	**32,056**	**(1,177)**
Net assets	**100**	**968**	**868**

Capital expenditure

Category ($million)	Forecast 2013/14	Budget 2014/15	Variance F/(U)
Property, plant and equipment			
Maintenance – IT	6	6	
Property	5	5	
Motor vehicles, equipment	1	1	
Total	**12**	**12**	
Intangible assets			
Change initiatives	31	90	(59)
Maintenance – IT	8	7	1
Total	**39**	**97**	**(58)**
Total capital expenditure	**51**	**109**	**(58)**

The proposed 2014/15 capital expenditure budget of up to $109 million is $58 million higher than the forecast for 2013/14. This reflects the inclusion of the current estimate of $74 million of capital expenditure on the major organisational and systems' change programme.

Financial risks

As the forecasts are projecting future events, there are risks that actual results may materially differ.

A major risk is the effect of economic factors that are not controlled by ACC (e.g. wage and cost inflation, and interest rates) on future claims payments, investment income and the projected outstanding claims liability.

At this time we are uncertain about the nature, timing and magnitude of expenditure related to organisational change projects.

Statement of cash flows

$million	Forecast 2013/14	Budget 2014/15
Cash flows from operating activities		
Cash was provided from:		
Levy revenue and other income	4,734	4,245
Investment income	999	1,106
Cash provided from operating activities	**5,733**	**5,351**
Cash applied to operating activities	3,482	3,666
Net cash movement from operating activities	**2,251**	**1,685**
Net cash movement from investing activities	**(2,240)**	**(1,685)**
Net cash movement from financing activities		
Net increase in cash and cash equivalents	**11**	
Cash and cash equivalents – opening balance	**407**	**418**
Cash and cash equivalents – closing balance	**418**	**418**

Summary of significant accounting policies

a) Levies

During 1998 and 1999 the basis of setting levies moved from 'pay as you go' to 'fully funded' 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 the Government sets the final levy rates. The Non-Earners' Account has been fully funded by the Government since 1 July 2001 in respect of claims incurred from that date. Claims before that date continue to be funded on a pay-as-you-go basis.

In addition to the above, residual amounts as specified by the Minister for ACC are to be fully funded by 31 March 2019 in respect of the Motor Vehicle, Earners' and Work Accounts.

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.

b) Levy revenue

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

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

c) Investment income

Investment income consists of, and is recognised, as follows.

- 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 and losses in respect of disposals made during the year.

d) Unexpired risk liability

At each balance date, ACC reassesses whether the levy revenue embodied in the unearned levy liability is sufficient to cover all expected future cash flows relating to future claims against current insurance contracts. 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, 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.

e) 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 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 valuation date, plus a risk margin to ensure that the accrued liability is sufficient to meet all the costs of future claim payments 75% of the time.

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

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

The AC Act effectively defines work-related gradual process, disease and infection claims as being consistent with the 'claims made' policies issued by general insurance entities. That is, clients are covered for specified contract periods, regardless of when events giving rise to claims occurred. Under 'claims made' policies, an insurer only has liability for reported claims.

f) Investments

Investments are reported at fair value through profit or loss.

Fair value for investments is determined as follows.

- Listed shares and unit trusts are valued at the quoted bid prices at the close of business on the balance date.
- Non-listed equity investments (private equity and venture capital) are recognised at the initial cost of investment and adjusted for the performance of the business and investment markets since that date.
- New Zealand and overseas bonds are valued at bid yield.
- Unlisted unit trust investments are valued based on the exit prices rather than the entry prices.
- For investments with no active markets, fair values are determined using valuation techniques.

g) Changes to accounting policies

There have been no changes in accounting policies except for those arising from the adoption of new standards and interpretations.

Letters of expectations

Office of Hon Judith Collins

Minister of Justice
Minister Responsible for the Law Commission
Minister for ACC
Minister for Ethnic Affairs

10 MAR 2014

Paula Rebstock
Chair
ACC
PO Box 242
WELLINGTON 6410

Dear Paula

2014/15 ANNUAL LETTER OF EXPECTATIONS

I am writing to convey my expectations of the Accident Compensation Corporation (ACC/the Corporation) as it begins planning for the next financial year and its key accountability documents – the 2014/18 Statement of Intent (SOI) and 2014/15 Service Agreement. This letter confirms and builds on the expectations set out in similar communications over the last year and in the existing Service and Purchase Agreement for 2013-2016.

ACC holds a unique position in the New Zealand community with its responsibility to ensure the Accident Compensation Scheme operates as intended by its legislation. Because of its size and importance, ACC can have a material impact on all the areas in which it is involved, on levy payers, and on the lives and well-being of New Zealanders.

The Board has a critical stewardship role to ensure that the Corporation is as efficient and effective as it can be in its delivery of cover to injured people, prevention of injuries and provision of value to levy payers. The Scheme must remain affordable for future generations and key organisational risks must be managed effectively while ensuring that injured people continue to receive the support to which they are entitled.

I acknowledge the steady progress achieved by ACC over the last year across its range of responsibilities but also note that there is a continuing need to focus on the ongoing priorities to:

- improve public trust and confidence
- improve management and security of private information
- provide high quality services for clients
- maintain a focus on levy stability and financial sustainability, and
- ensure early resolution of disputes.

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In addition I expect to see significant progress on the cost-effective prevention of injuries. I am also expecting that ACC will work with the Ministry of Business Innovation and Employment (MBIE) to support the introduction of an amendment bill to clarify, provide greater certainty on and improve the workability of the Accident Compensation (AC) Act. I expect ACC to continue to work with MBIE and the Treasury as appropriate on all priorities.

I expect ACC to meet the standard expectations of all Crown entities. Ministers see ACC is an integral part of the broader government sector. ACC should take a positive and active role in all-of-government initiatives, while recognising that the Corporation (and its Board) has its own legislative backing and mandates. ACC is well placed to support the Better Public Services programme and, through its interaction with the Health Sector, to drive continuing improvements in health outcomes for New Zealanders.

Ministers intend to continue to focus on funding policy over the coming year, and I will be in contact as decisions are taken.

<u>The Board's focus for 2014/15</u>

Improve public trust and confidence

I note the improved trend in trust and confidence experienced over the last year as measured by the independent survey results. I recognise that it can take time for changes to be reflected in public perceptions. The Board should strive to continue to achieve improvements in the public's perception of the Corporation.

Improve management and security of private information

I recognise the Board's progress to date in implementing the recommendations of the Independent Review of ACC's Privacy and Security of Information. I expect the Board to remain committed to completing implementation of the remaining recommendations and to a zero tolerance target for privacy and information security breaches. I look forward to receiving regular reports on the Corporation's progress towards meeting this commitment.

Provide high quality services for clients

The Government has made the delivery of Better Public Services one of its top priorities for this term of government. Our public service is expected to be more innovative, enterprising, driven, and focused on results. This means improved frontline services, better value for money, and better results for New Zealanders.

ACC is ideally placed to support this program and, in particular, I expect the Board to demonstrate that clients will receive high quality, financially sustainable services to help their recovery from the consequences of injury. I expect ACC to continue to work with the Treasury on the specific measures and targets to demonstrate that the Corporation rehabilitation practice is appropriate.

I expect ACC to continue to focus on improved client experience and satisfaction and in particular to continue to improve communications with stakeholders and claimants' confidence in the independence of medical assessors. I expect ACC to continue to work to embed the client-centric culture.

I expect the Board to work with MBIE to progress policy work towards addressing workability issues with the AC Act and to implement any necessary legislative amendments that arise from the funding policy review and "Shaping Our Future" both currently underway. It is intended that legislation will be introduced towards the end of 2014. This legislation will garner greater confidence in the scheme and also improve the scheme's effectiveness and provide better quality outcomes for customers.

I also expect ACC to work with MBIE on implementing changes to the hearing loss regulations.

Maintain a focus on financial sustainability and levy stability

I recognise ACC's strong financial performance over recent years. Financial sustainability remains a core requirement of the Scheme requiring the Board to carefully manage all controllable costs to ensure all expenditure is necessary and cost-effective.

I expect that the Board will continue to focus on financial sustainability and levy stability through working with MBIE and the Treasury as appropriate on the following areas:

- further levy reductions to maintain stable and appropriate funding levels
- the funding policy for the scheme in order that the Government's expectations of funding levels are clearer, to improve the clarity of the respective roles and to improve the robustness and transparency of the levy setting process
- claims management performance and in particular rehabilitation rates to ensure that the cost to settle claims remains both appropriate and financially sustainable, and
- the development of an investment framework to ensure that injury prevention initiatives meet the cost-effectiveness investment criteria set out in legislation.

The Minister of Finance will write to you separately outlining his priorities and expectations in relation to the Corporation's investment function.

Implement practical and cost-effective new injury prevention initiatives

I recognise that ACC has been working towards a robust intervention approach to injury prevention in partnership with other agencies across Government. I look forward to receiving progress reports on how injury prevention initiatives are improved through the established relationships with transport and work safety agencies and through working closely with agencies in the health, sexual and violent crime areas. I also look forward to hearing about progress on the investment approach and performance reporting on injury prevention projects.

Partnership with Worksafe and MBIE to effect safer workplaces

Successful implementation of the Working Safer programme and WorkSafe in particular will continue to require positive collaboration both with WorkSafe and other agencies as appropriate. I recognise the work that has commenced on workplace injury prevention in conjunction with WorkSafe and MBIE. I expect ACC to continue to work with WorkSafe and MBIE on the development of the three year work programme to address the Government's target to reduce workplace fatalities and serious injuries by 25 percent by 2020.

Support early resolution of disputes

I recognise the promise shown in ACC's initiatives to resolve more disputes up front. The Corporation should continue to work on the quality and robustness of its decision-making in order to reduce the number of disputes. The Corporation should continue to report on this priority, and I will monitor progress before further considering whether regulatory measures are required.

Other policy initiatives

I expect the Corporation to robustly implement any other Government initiatives that arise over the year in collaboration with MBIE and the Treasury as necessary.

Standard Expectations of all Crown Entities

Crown Entities represent a significant proportion of Crown spending, asset ownership and direct engagement with the public and business. They are therefore key to the Government's achieving many of the results that it is seeking to achieve. While recognising the arms-length relationships, the Government places the same expectations on Crown Entities as it does on departments, these expectations include:

- that agencies should be able to demonstrate what difference they are actually making for their customers. Results matter, not processes or unquestioned continuation of existing programmes

- that the Government will consider new investment only where agencies can show a contribution to the Government's programme under the Better Public Services or Business Growth agendas and that they have a sufficient understanding of their business to give Ministers informed choices about trade-offs

- that entities should be clear how they are working with other agencies, owning the sector results and putting the client not agency boundaries first in service design. No entity can expect to make a difference working alone

- that agencies should be constantly looking for ways that improve how they do business and deliver value for taxpayers' investment in them. The Performance Improvement Framework (PIF) was designed with this expectation in mind. Entities should be using either the PIF formal or self-review methodology. If not they need to be able to demonstrate that they are using some other performance or continuous improvement process, and

- that the provisions of the Enduring Letter of Expectations continue to apply. The enduring letter of expectations can be found on the State Services Commission's website.

Other Expectations

Business planning

Under the recent Crown Entities Act (CEA) amendments, SOIs will be focussed on strategic intentions and must cover a minimum of 4 years. The Service Agreement specified under the AC act will meet the requirements of the Statement of Performance Expectations under the CEA and include the annual information that was previously part of the SOI. Officials will engage further with ACC on any implications of the CEA amendments on the Corporation. I expect you to consult MBIE and the Treasury as you set strategic and operational priorities, and to continue to work with the Treasury to agree performance measures and targets to reflect the priorities outlined above for the upcoming year. The Corporation should provide to officials its draft SOI, and Service Agreement by 1 May 2014 plus any further information officials may need to request for the purpose of assessing those plans.

It is possible that the Board might consider initiatives that can be funded by reserves held by the Corporation in some accounts, but which would also impact on expenditure in the Non-Earners Account. Particularly given our tight fiscal position, I expect that if this were to be the case, ACC would engage with MBIE and the Treasury Policy Team well before decisions are taken.

Communications

Our communications should be straightforward and simple. There may be times when you need to make contact on short notice, and you should not hesitate to do so. I expect all priorities to be delivered through a "no surprises" approach. As such, you should inform me of any significant events or set of circumstances, whether positive or negative, that could be considered contentious, attract wide public attention and/or affect the financial position of the Corporation.

In undertaking its business I expect the ongoing commitment of the Corporation to continue to work constructively and collaboratively with advisors from my office, MBIE and the Treasury to achieve the Government's objectives.

I look forward to working with the Corporation on delivering the Government's objectives, and I thank you in advance for your continued positive engagement.

Yours sincerely

Hon Judith Collins
Minister for ACC

Office of Hon Bill English

Deputy Prime Minister
Minister of Finance
MP for Clutha-Southland

12 MAR 2014

Paula Rebstock
Chair
Accident Compensation Corporation
PO Box 242
WELLINGTON 6410

Dear Paula

ANNUAL LETTER OF EXPECTATION

I am writing to convey my expectations in relation to the investment management functions of the Accident Compensation Corporation (ACC) as it begins planning for the 2014/15 Statement of Intent and Service Agreement.

ACC is a Crown Entity that manages a significant pool of financial assets. For monitoring purposes its investment management function is grouped with other Crown Financial Institutions (CFIs). Accordingly I have outlined below my priority expectations for the Crown's CFI portfolio.

A separate letter of expectations has been sent to you from my colleague Hon Judith Collins in relation to the ACC scheme functions and the Government's general expectations of ACC.

Priority Expectations

- *Returns:* A prime focus for Ministers is that Crown Financial Institutions (CFIs) achieve their long term performance objectives. The Crown has a long term perspective on returns, and acknowledges that returns will vary from year to year, sometimes due to temporary or non-controllable factors. Emphasis will continue to be placed on longer term returns. In circumstances where the longer term return is persistently below the performance objective, I expect the CFI to review the appropriateness of its investment strategy. Furthermore, where active management or other value adding strategies are employed, achieving returns in excess of benchmarks after investment management fees and other operational costs is expected.

- *Investment Management Expenses:* Notwithstanding the expectation for CFIs to outperform investment objectives after investment management costs, each CFI should also ensure that the costs incurred in implementing its investment strategy are appropriate in the context of managing Crown assets.

- *Investment Review:* We expect CFI boards to review major past investment decisions to assure themselves that the benefits claimed when such decisions were made are in fact being realised. Our expectation is that such reviews are made available to Ministers. The CFIs are increasing investment in non-listed investments and we think scrutiny by the owner for the larger investments is warranted.

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- *Joint Ventures*: While Ministers are supportive of CFIs entering into joint venture (j.v.) arrangements as a way of leveraging expertise and capital, the expectation is that Ministers are informed at an early stage of any j.v. formation, particularly where the j.v. involves another New Zealand government entity or where it includes a foreign government or sovereign wealth fund.

- *Use of derivatives*: The aggregate funds managed within the CFI portfolio continues to grow as a percentage of the overall Crown's balance sheet. I am aware that there is an increasing use of derivative instruments within the portfolios. Together with other Crown operations (such as the Debt Management Office and the Reserve Bank of New Zealand) this is resulting in a steady increase in the Crown's exposure to counterparties as a result of derivative positions taken. This exposes the Crown to increasing financial and credit risk. It is my expectation that CFIs should use derivatives judiciously, and that where relevant, there is a strong case for their use relative to equivalent physical exposures.

- *Collaboration*: While the individual objectives and investment strategies differ across the CFI portfolio there is a material level of crossover in the operational investment activities of the CFIs. My expectation is that the CFIs will continue to identify opportunities and implement strategies to achieve operational synergies and cost efficiencies through sharing of resources and intellectual capital.

Engagement

My expectation is that you and your executive will continue to engage openly with the Treasury during the year.

Yours sincerely

Bill English

Hon Bill English
Minister of Finance

cc Scott Pickering
Chief Executive
Accident Compensation Corporation
PO Box 242
WELLINGTON 6410

APPENDIX 2:

Conditions of the Service Agreement

Roles and responsibilities

The Minister for ACC is the Minister responsible for both the Accident Compensation Scheme (the Scheme) and the Accident Compensation Corporation (ACC). The Minister's roles and responsibilities are to:

- make sure an effective board is in place to govern ACC
- participate in setting the direction of ACC
- monitor and review our performance and results
- manage risks on behalf of the Crown.

The Minister exercises this responsibility through the relationship with the ACC Board (the Board) and, in particular, the Board Chair. This Agreement supports that relationship.

The Board is accountable to the Minister for the delivery of the services specified in this Agreement, to the quality and cost specified. ACC remains accountable for the delivery of all outputs, including outputs that have been subcontracted to third parties.

Parties

This Agreement is between the Minister and ACC. Under section 25 of the Crown Entities Act 2004 the Board is responsible for all decisions relating to the operation of ACC. Under section 49 of that Act the Board also has a statutory duty to ensure that ACC acts in a manner consistent with this Agreement.

Term

This Agreement, entered into pursuant to section 271 of the Accident Compensation Act 2001 (AC Act), relates to a one-year period from 1 July 2014 to 30 June 2015. This Agreement revokes the Service Agreement for the period 1 July 2013 to 30 June 2016.

ACC's functions and duties

ACC provides accident insurance cover for all New Zealanders and visitors to New Zealand. We receive approximately 1.7 million claims per year. Below are our core services.

Injury prevention

We have a key role in promoting a reduction in the incidence and severity of personal injury. The injury prevention programmes are expected to be cost effective and to lead to a reduction in levy rates.

Rehabilitation

We aim to restore an injured person's independence to the maximum extent practicable. Specific provisions in the AC Act prescribe the entitlements that clients can access.

Compensation

The Scheme provides financial compensation to clients for losses owing to personal injury.

The costs of services for each injury are assigned to the Motor Vehicle, Work, Earners', Non-Earners' or Treatment Injury Account depending on who was injured and/or where the injury occurred. The injury prevention costs are also assigned to the relevant Account. There is no cross-subsidisation between the Accounts.

ACC complies with procedures, conditions, restrictions and other provisions in the performance of its duties in relation to the management of each Account as set out in the AC Act. ACC is governed in accordance with the provisions of the Crown Entities Act 2004, the State Sector Act 1988 and the Public Finance Act 1989.

Amendments to this Agreement

This Agreement may be amended with the consent of the Minister and the Board if at any time during its term the work or environment of ACC is materially altered and the contents of this Agreement are no longer appropriate.

Any changes must be signed by the Minister and the Board, and attached to this Agreement. Both parties will hold copies of the original and any amendments to this Agreement.

Payment

The Minister, on behalf of the Crown, will pay ACC up to the amount authorised by Parliamentary Appropriations for 2014/15 as detailed in Appendix 3. The Ministry of Business, Innovation and Employment (the Ministry, acting as the administering agency responsible for Vote: ACC) will action payments to ACC in accordance with the Public Finance Act 1989. Payments will be made monthly by direct credit from the Ministry to ACC, coinciding with the Ministry's receipt of funding from the Treasury.

Interpretation

The appendices to this Agreement form part of this Agreement, as do any amendments to those appendices signed by the Minister and the Board. The parties agree to discuss and seek to resolve any differences of opinion between them under the Agreement, or any matter not covered by this Agreement relating to the supply of outputs.

Quarterly reporting

We will provide quarterly reports on our performance against this Agreement. Quarterly reports are to be read in conjunction with this Agreement and the reports of any preceding quarters to provide a context for the reporting of our ongoing performance for the financial year 2014/15.

Each quarterly report will include commentary on our performance against the performance targets, progress in implementing key initiatives and, where necessary, an explanation of performance trends, an analysis of those trends, and proposed actions to improve performance. It will also include commentary on financial performance and an analysis of risks, critical issues and opportunities arising from performance to date.

Where performance does not meet targets, we will provide further information that may include:

- an analysis of causes
- strategies and plans to improve performance and meet the specified targets
- forecast performance for the remainder of the financial year, including an assessment of whether and when the performance target(s) will be met.

As necessary we will provide the Minister with:

- any proposals to amend this Agreement due to changed circumstances
- timely advice of any risks that may create a significant exposure for the Crown
- an annual technical report supporting our proposal for funding of the Non-Earners' Account for the following four financial years.

The timeframes for quarterly reporting are:

Quarterly performance report	Timeframe
Quarter 1 report	By 31 October 2014
Quarter 2 report	By 31 January 2015
Quarter 3 report	By 30 April 2015
Quarter 4 report	By 31 July 2015

Our quarterly reports to the Minister will be published on ACC's website.

APPENDIX 3:

Payment schedule

Payment schedule ($ 000)	Payment dates												
	8-Jul	12-Aug	9-Sep	14-Oct	11-Nov	9-Dec	13-Jan	10-Feb	10-Mar	14-Apr	12-May	9-Jun	Total
Non-Earners' Account													
Case management and suporting services (ex GST)	9,333	9,333	9,333	9,333	9,333	9,333	9,333	9,333	9,333	9,333	9,333	9,331	**111,994**
Rehabilitation entitlements and services (ex GST)	36,550	36,550	36,550	36,550	36,550	36,550	36,550	36,550	36,550	36,550	36,550	36,543	**438,593**
Public health acute services (ex GST)	24,738	24,738	24,738	24,738	24,738	24,738	24,738	24,738	24,738	24,738	24,738	24,735	**296,853**
Compensation entitlements (GST n/a)	1,944	1,944	1,944	1,944	1,944	1,944	1,944	1,944	1,944	1,944	1,944	1,939	**23,323**
Treatment Injury Account													
Case management and supporting services (ex GST)	759	759	759	759	759	759	759	759	759	759	759	758	**9,107**
Rehabilitation entitlements and services (ex GST)	6,025	6,025	6,025	6,025	6,025	6,025	6,025	6,025	6,025	6,025	6,025	6,025	**72,300**
Public health acute services (ex GST)	100	100	100	100	100	100	100	100	100	100	100	97	**1,197**
Compensation entitlements (GST n/a)	595	595	595	595	595	595	595	595	595	595	595	589	**7,134**
GST	11,626	11,626	11,626	11,626	11,626	11,626	11,626	11,626	11,626	11,626	11,626	11,623	**139,507**
Total cash to ACC (including GST)	**91,670**	**91,670**	**91,670**	**91,670**	**91,670**	**91,670**	**91,670**	**91,670**	**91,670**	**91,670**	**91,670**	**91,640**	**1,100,008**

PREVENTION. CARE. RECOVERY.

Te Kaporeihana Āwhina Hunga Whara

www.acc.co.nz

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New Zealand Government

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