PREVENTION. CARE. RECOVERY.
Te Kaporeihana Āwhina Hunga Whara

Service Agreement 2018/19

Accident Compensation Corporation
Te Kaporeihana Āwhina Hunga Whara

Service Agreement

For the year ending 30 June 2019 between the Minister for ACC and the Accident Compensation Corporation

This Service Agreement[1] 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 Iain Lees-Galloway Minister for ACC Dated 25 June 2018	Dame Paula Rebstock DNZM Board Chair Dated 25 June 2018	Trevor Janes Deputy Chair Dated 25 June 2018

1 *For information on how this Service Agreement aligns with our other accountability documents, refer to Appendix 1 – Alignment of the Service Agreement. The conditions of this Service Agreement are disclosed in Appendix 2 – Conditions of the Service Agreement.*

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An online version of this report can be found at ***www.acc.co.nz/about-us/corporate***

Our strategic and performance environment

Our strategic framework

> "Injury arising from accident demands an attack on three fronts. The most important is obviously prevention. Next in importance is the obligation to rehabilitate the injured. Thirdly, there is a duty to cıompensate them for their losses…"
>
> **Sir Owen Woodhouse, Chairman, Royal Commission on Compensation for Personal Injury, 1967**

ACC's vision and values reflect the organisation that we want to be and the vision established by Sir Owen Woodhouse.

Our vision, values and outcomes are intended to remain constant over time, while our strategic intentions reflect the areas that we have identified as needing the most focus during the period of the Statement of Intent (2018-2022). There is a strong alignment between our outcomes and our strategic intentions.

Our strategic intentions represent our commitment to:

- reduce the incidence and severity of injury in New Zealand by increasing the success of our injury prevention activities
- rehabilitate injured people in New Zealand more effectively by improving our customers' outcomes and experiences
- ensure that New Zealand has an affordable and sustainable scheme by improving the financial sustainability of the ACC Scheme.

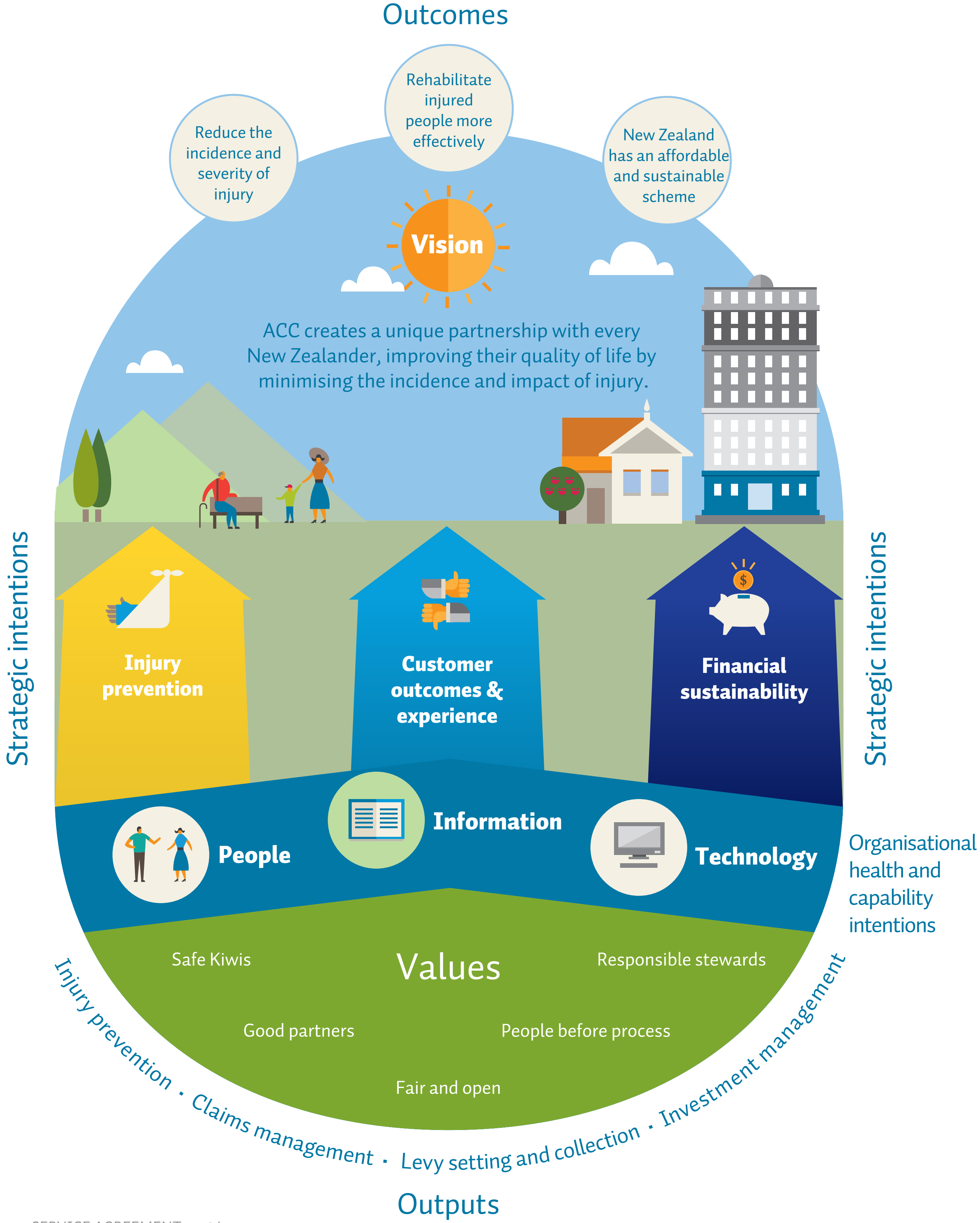
Injury prevention is critical to the success of ACC. Most injuries are preventable and we have an important role in encouraging those behaviours that contribute most to stopping injuries in the first place. Success in injury prevention goes a very long way towards improving quality of life in New Zealand.

Where an injury has occurred, ACC works to rehabilitate the individual. We recognise that an individual's health and wellbeing are significantly improved with a rapid return to independence, so it is important that we ensure the Scheme is fair and accessible and provides individuals with the right services at the right time.

In recent years our Transformation Programme has been an important driver of real organisational change to deliver a more customer-centric scheme. Today our transformation capability has matured and delivering service improvements is something we do every day. That means we no longer need a dedicated programme. We will continue to transform, contribute to our strategic intentions and respond to the changing needs of our customers, but now it will be through individual investments. We plan to maintain our pace of change and our management team and Board are committed to ensuring that our performance tracks as expected as changes are delivered.

Outputs and outcomes

FIGURE 1: OUTPUTS AND OUTCOME FRAMEWORK



Our key performance measures

Our most important performance measures are presented in our Statement of Intent 2018-22. These measures best reflect the aspects of performance we can control. They are closely aligned with the expectations of the Minister for ACC, as expressed in the letter of expectations. Together, they provide a succinct view of:

- how we are delivering impact
- the extent to which we are meeting customer expectations
- the extent to which we are delivering a scheme that New Zealanders have trust and confidence in
- whether we are delivering a cost-effective scheme that provides fair compensation in return for a fair levy.

These key performance measures cover our strategic intentions and extend to providing transparency in how we are developing our organisational health and capabilities and the success of our transformation efforts.

TABLE 1: KEY PERFORMANCE MEASURES – STRATEGIC INTENTIONS

	Key measure	Rationale	Actual 2016/17	Actual Mar 2018	Target 2018/19
Injury prevention	The portfolio of injury prevention investments will have an assessed positive return on investment.[2]	We invest to keep New Zealanders safe from accidental injury by working with others to reduce the risk across a range of areas. We take a portfolio approach. This means that overall we expect our injury prevention programmes to deliver positive returns on investment.	\$1.63:\$1	\$1.86:\$1	\$1.80:\$1
Injury prevention	Rate of serious injury.	Our investment in changing the behaviours of New Zealanders should reduce the severity of injuries sustained in the settings targeted by our investments.	New measure	74.3	73.8

Continued …

2. *The total return on investment consists of two parts: the historical value of claims saved divided by the cost of the interventions to date, plus the 10-year forecasted claims saved divided by the likely future cost of future interventions.*

	Key measure	Rationale	Actual 2016/17	Actual Mar 2018	Target 2018/19
Customer outcomes and experience	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.	68.4%	67.6%	68.5%
	Return to independence for those not in the workforce.		85.8%	86.9%	86.0%
	Growth rate of the Long Term Claim Pool.[3]		New measure	3.7% YTD	3.1%
	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 stakeholders.	62%	59%	65%
	Client net trust score.	Improving customer experiences, while delivering services through a simplified business operating structure and enhanced technology platform, will increase the level of trust and confidence our customers have in ACC.	+23.0	+27.0	+30.6
	Client net trust score for Māori.[4]		TBD	TBD	TBD
	Provider net trust score.		-11.0	-11.0	-10.0
	Business net trust score.		-35.0	-16.0	-14.0
Financial sustainability	Change in average treatment cost per injury.	We need to manage rising health care costs that also affect future liabilities and levy rates. We focus on controllable costs, ensuring that all services are delivered cost effectively.	3.4%	3.8%	≤5.0%
	Average care hours per serious injury claim		New measure	1,021 YTD	1,406
	Solvency of the Scheme.	It is important that we manage the Scheme in a way that ensures we have sufficient reserves today to pay for the future costs of today's injuries.	96.7%	97.7%	95.0%
	Investment performance after costs relative to benchmark.	The quality of our investment management can only be gauged by comparing our returns net of costs with that of a blended market average benchmark, which provides a comparison with the asset classes in which we have invested.	1.35%	-0.25%	0.30%

3. *In this context, 'long term' refers to clients who have received weekly compensation for more than 365 days.*

4. *During the course of 2018/19, we will define this key performance measure to demonstrate the impact we are having to improve outcomes for Māori clients.*

TABLE 2: KEY PERFORMANCE MEASURES – ORGANISATIONAL HEALTH AND CAPABILITY INTENTIONS

	Key measure	Rationale	Actual 2016/17	Actual Mar 2018	Target 2018/19
People	Employee net promoter score.	Equipping our staff with the right tools and capabilities enables them to be high-performing employees, proud of their organisation.	-17.0	+12.0	+16.0
People	Total recordable injury frequency rate.[5]	We keep people safe, healthy and well, enabling them to arrive home in the same mental and physical condition that they were in when they left for work.	New measure	7.8	9.5
Information	The number of category 3, 4 and 5 privacy breaches and near misses (as defined by the Government Chief Privacy Officer's privacy matrix).	We deal with confidential and sensitive information for a large number of people and entities. Our customers expect us to protect this information and maintain our progress in reducing privacy breaches.	1	0	<5 per year No category 5 privacy breaches
Information technology	Overall operational system availability.	Our systems need to be available so that we can deliver the services our customers expect.	99.9%	99.8%	99.5%

TABLE 3: KEY PERFORMANCE MEASURES – OTHER TRANSFORMATION MEASURES

	Key measure	Rationale	Actual 2016/17	Actual Mar 2018	Target 2018/19
Transformation	Claims processed per full-time equivalent.	Improving the productivity of ACC drives improved customer satisfaction and contributes to safeguarding the Scheme into the future.	572	576	585
Transformation	Reduction in average weekly compensation days paid.	Reducing the number of productive days lost to injury attributable to ACC's management of cases helps our clients to return to work and/or independence more quickly.	-0.9 days	-0.9 days	0.5 days

These form part of a comprehensive measures set that is detailed in the following sections (including our targets for the next four years). This broader set allows us to track the financial and non-financial measures that represent the many aspects of the Scheme. For more information on the full set of measures we use to monitor our performance and manage our organisation, refer to our Statement of performance expectations by output and Appendix 4 – Other performance measures.

5. *The total recordable injury frequency rate is the number of lost-time incidents, restricted work incidents and medical treatment incidents per million hours worked.*

Drivers of the Scheme's financial performance

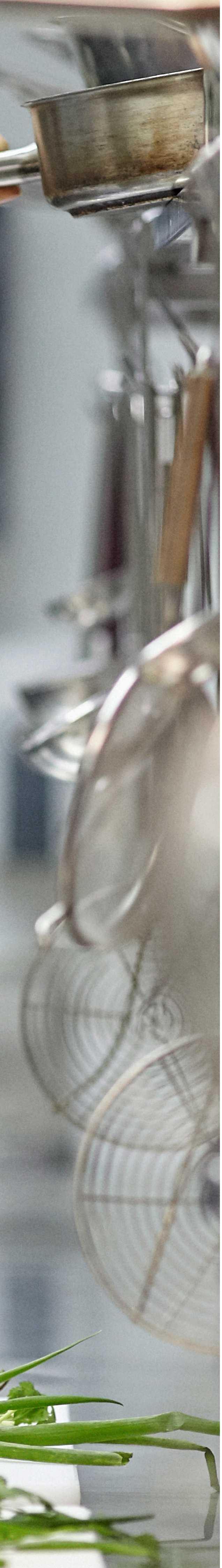
Through the course of 2018/19 we will manage the organisation in a way that strikes the right balance between ensuring financial sustainability and delivering our functions in the manner of a publicly administered and delivered social insurance scheme distinct in character from a private insurance company. This means we will deliver the services our customers expect while demonstrating responsible management of the Government's finances and a commitment to delivering the Government's priorities.

To achieve this balance, we need to have a good understanding of the drivers of financial performance. This understanding allows us to:

- forecast regularly the drivers' potential impacts
- manage the drivers where we have control or influence
- manage the Scheme in a way that mitigates the impacts of these drivers where we lack control or significant influence.

For the Scheme, there are five main drivers of financial performance:

- claim volume – we offset some of the claim volume growth through our injury prevention activities. Our relationships with providers are also important in ensuring that we are responsible for all the injuries covered by the Accident Compensation Act 2001 (AC Act) and that injuries are treated appropriately. We actively monitor the way that treatment and rehabilitation costs change as our claim volumes change, allowing us to take early actions where we see cost pressures from claim volume growth. However, we also recognise that the growth in the number of new claims is driven by a range of factors outside our control: population growth, gross domestic product growth, the unemployment rate and the total vehicle distance travelled
- inflation – inflation increases the costs of the services we provide. The way we contract for services with providers (such as elective services) mitigates the impacts of inflation on the costs of our services. The nature of the services we purchase exposes us to additional cost inflation that is specific to treatment and rehabilitation services. To make sure that our efforts have an impact, we constantly monitor our average treatment costs
- service offerings – we change the set of services we offer to reflect the availability of new and improved services and the need to support the rehabilitation of clients who have suffered injuries newly covered by the Scheme. We closely monitor the rehabilitation performance of the services we offer, ensuring that those services focus on both client rehabilitation outcomes and financial sustainability. We test this dual focus by monitoring return-to-work rates and the average cost per claim
- legislative changes – we engage closely with the Ministry of Business, Innovation and Employment and the Treasury to influence proposed changes and predict the impacts of those changes. Additions to the Scheme (such as the introduction by the Government of free medical care for children aged 12 and under from 1 July 2015) can increase the number of claims we accept and push up our overall costs of providing treatment and rehabilitation services
- economic factors – we employ active strategies to ensure our assets and liabilities are matched so that where possible the impacts of movements in key economic factors are hedged. We have also recently reviewed the funding policy for the levied Accounts to ensure that levy payers are able to spread any impacts over a 10-year period. Given the size of our balance sheet relative to our underlying costs, small movements in interest rates and investment earnings can have material impacts on the solvency of the Scheme.



What we will deliver in 2018/19

The Government's key priorities

The Government's key priorities for ACC are outlined in the annual letter of expectations from the Minister.

At a high level, the Government expects the Scheme to be claimant centric and to provide claimants with the right services at the right time and be efficient and be effective in doing so. The Scheme will provide fair compensation in return for a fair levy. The Government also expects ACC to use data and analytical capabilities to support case managers and providers to make good judgements about claimant needs. These judgements should ensure that claimants are aware of the entitlements available to them, and allow for the setting of successful rehabilitation plans.

While ACC is accountable to the Government, and must play a role as a good partner across the state sector, it is above all accountable to claimants and levy and tax payers. As such, the Government expects ACC to be able to demonstrate that claimants are able to access what they are entitled to easily and consistently.

At a more detailed level, these priorities are represented by seven themes:

- government priorities – ensure that ACC functions as a publicly administered and delivered social insurance scheme distinct in character from a private insurance company
- Shaping Our Future – continue high levels of transparency in the Integrated Change Investment Portfolio and ensure that the Board does not commit to any significant investments prior to Cabinet discussions on progress to date and planned investments for the coming years
- manifesto commitments – continue to collaborate with the 2018 Legislation Programme
- financial management – demonstrate responsible management of the Government's finances
- independent review – implement the remaining recommendations of the Independent Review of Acclaim Otago (Inc) report into Accident Compensation Dispute Resolution
- injury prevention – continue to work with a range of partners to deliver a portfolio of injury prevention investments that improve the lives of New Zealanders
- cross-government collaboration – maximise cross-sector efficiency and effectiveness wherever possible and deliver joint initiatives as a good partner, even when those benefits are less tangible to ACC.

The Minister's specific expectations are documented in the annual letter of expectations, presented in Appendix 3 – Letters of expectations.

The Government also communicates key priorities for ACC as a Crown Financial Institution. These priorities are presented in the Minister of Finance's letter of expectations (Appendix 3 – Letters of expectations) and are summarised in Appendix 5 – Investment statement.

We have carefully considered these priorities and they have informed our planned actions and initiatives for the 2018/19 year.

Delivering our strategic intentions in 2018/19

Our strategic intentions reflect the areas that need the most focus during the period of our Statement of Intent 2018-2022. They demonstrate where we intend to concentrate our efforts to deliver our vision, our outcomes and the Government's priorities for ACC. They are:

- injury prevention – increase the success of our injury prevention activities
- customers' outcomes and experience – improve our customers' outcomes and experiences
- financial sustainability – improve the financial sustainability of the Scheme.

Strategic intention: Increase the success of our injury prevention activities

It all starts before injury. Most injuries are preventable, and through our injury prevention investments we focus on activities and behaviours that contribute most to stopping injuries from occurring in the first place. Our success in injury prevention goes a very long way towards improving quality of life in New Zealand while ensuring the long-term sustainability of the Scheme.

It makes sense for us to be the champion for injury prevention but we know we cannot do it alone. Our network of partners helps us to design and deliver a set of well integrated injury prevention programmes. This spirit of partnership extends to communities across New Zealand, allowing us to deliver programmes to improve the safety of New Zealanders of all ages and across a wide range of settings.

In 2017/18 we expect to have invested $71 million in injury prevention programmes and we expect that investment to grow to $80 million in 2018/19.

We deliver our injury prevention intention by focusing on five priorities:

TABLE 4: INJURY PREVENTION DELIVERY STATEMENTS

What we want to achieve	What we will have delivered by 30 June 2019
We use analytics to target our injury prevention programmes and increase the impact of our efforts.	We will have understood the benefit of a re-injury prevention programme for our clients and the impacts this will have on reducing the rate of re-injury in clients.
We design for the client, creating sustained behaviour changes.	We will have progressed the development of an experience rating system, risk sharing options and targeted financial incentives that will motivate small and large businesses to continue to improve workplace health and safety (for planned implementation in 2019/20).
	We will have updated the vehicle risk rating system to reflect the Government's intentions for this aspect of the Scheme.
We increase prevention effectiveness by partnering with capable, like-minded organisations.	Together with WorkSafe, we will have delivered the Harm Reduction Action Plan, which outlines all workplace injury prevention programmes that will be delivered by the two agencies (either jointly or separately).
	We will have continued to evolve our existing injury prevention partnerships while developing new injury prevention partnerships where appropriate. Together with our partners, we will have designed and delivered initiatives in the seven areas[6] that have the greatest impact on our claims liability, including a focus on long-latency injuries where appropriate. This represents our continued commitment to applying the insurance approach to our injury prevention initiatives.
We extend our reach by working closely with communities.	We will have embedded our new community injury prevention approach, to help deliver injury prevention programmes across New Zealand's regions and communities.
Our injury prevention interventions contribute to a reduction in the Outstanding Claims Liability (OCL).	We will have continued to publish treatment injury information as a key driver of sustained behavioural change. This information will have been used to reinforce existing and support the development of new prevention interventions with our health sector partners. It will also have allowed us to monitor injury prevention progress and evaluate the effectiveness of our interventions.

6. *The seven areas are falls, sport and recreation, community, road, work, treatment injury, and violence injury prevention.*

Strategic intention: Improve our customers' outcomes and experiences

Once somebody has sustained an injury, we know that that person's health and wellbeing are significantly improved with a rapid return to independence. This improvement extends to their family and their community.

We need to deliver the right treatment and rehabilitation services at the right time. To support this, we will ensure that all of our clients are connected with the right treatment and rehabilitation services from across the wider health sector. We can do this by being closely connected to our providers, and enabling a simple, seamless and effective delivery of treatment and rehabilitation services to our clients.

We are committed to ensuring that the delivery of our services reflects the diversity of our communities, so that all New Zealanders have the opportunity to access our services in ways that meet their needs.

We will continue our work to improve our customers' outcomes and experiences by focusing on four priorities:

TABLE 5: CUSTOMERS' OUTCOMES AND EXPERIENCES DELIVERY STATEMENTS

What we want to achieve	What we will have delivered by 30 June 2019
We engage with our clients in ways that add the most value to their recovery and deliver the most appropriate client outcomes.	We will have tested our improved case management approach and demonstrated that we can better focus our resources and effort on where they can have the greatest impact in improving our clients' outcomes. The national rollout of this approach will be underway.
	We will have collaborated with the Ministry of Business, Innovation and Employment to progress the 2018 Legislation Programme, contributing to ensuring that the AC Act is transparent and accessible.
We actively make it easier for others to work with us.	We will have implemented a real-time customer feedback system and used our customer advocacy network to improve our ability to understand customers' experiences and respond quickly to their changing needs.
	By telling our story we will have ensured that we have demonstrated effectively the value we offer to New Zealand and our customers.
	We will have reviewed, with the Ministry of Business, Innovation and Employment, the AC Act to give effect to Government and ACC priorities and will have delivered advice on the existing and future ability of the ACC Scheme to respond to external trends and system pressures.
	We will have continued to increase the range of digital, telephony and self-service options for our customers. This will have given our customers more choice in selecting the options that work best for them and increased the efficiency of working with us.
	We will have ensured that our new business levy management and invoicing system delivered the expected efficiency benefits to our customers and improved our customers' experiences.
	We will have implemented new ways to make the client payment experience easy, including simplified weekly compensation payments, client self-service (to view and manage weekly compensation) and faster payments of reimbursements.
	We will have established a dedicated function to improve the efficiency and effectiveness of our interactions with government, making it easier for other parts of the public sector to work with us.
	We will have implemented the outstanding recommendations from the Independent Review of Acclaim Otago (Inc) report into Accident Compensation Dispute Resolution in a timely manner, including the establishment of a nationwide advocacy service and the resolution of issues regarding medical evidence.

Continued …

We achieve improved experiences and outcomes for Māori.	We will have designed (and be prepared to roll out) an evidenced-based cultural competency workforce development programme, enhancing our people's cultural literacy levels and lifting our ability to engage with all of our customers.
	We will have designed and started the rollout of a Māori engagement campaign, including marae-based delivery, ensuring that Māori have a better understanding of the services we offer and how those services can be accessed.
	We will have continued the active measurement and internal reporting of Whāia Te Tika performance measures from 1 July 2018. This will have allowed us to establish a final set of leading and lagging measures for inclusion in the Service Agreement 2019/20, by March 2019. This set of measures will have represented a broad view of our Whāia Te Tika strategy including: · The breadth and adoption of our cultural capability workforce development · The effectiveness of our Māori engagement strategy · The proportion of our staff who identify as Māori · The extent to which we have Te Reo speakers across our staff and geographies.
We adopt new ways of working with providers.	We will have simplified the way we work with our providers by introducing client service pre-approvals, automated ordering and invoicing, enhanced provider self-service options and faster invoice payments. These improvements will have been supported by a technology environment that supports outcome-based purchasing consistent with our health sector strategy.

Strategic intention: Improve the financial sustainability of the Scheme

A strong financial platform allows us to provide the high-quality service our clients expect while simultaneously reducing the burden of the Scheme on all levy payers (including the Government). It is this consistent, dual focus on client outcomes and financial performance that has seen a significant improvement in the Scheme's financial position.

We can continue to improve the customer experience and outcomes only while we are increasing our financial sustainability and levy stability. It also follows that the provision of high-quality rehabilitation and independence outcomes for our clients will lead to improved financial performance.

What we will deliver in 2018/19

We must be mindful of the role we play in maximising intergenerational fairness. Our careful stewardship of the Scheme will reinforce the fully funded model, meaning that future generations of levy payers are not paying for injuries that happened in earlier years.

We will continue to strengthen the financial sustainability of the Scheme by focusing on five priorities:

TABLE 6: FINANCIAL SUSTAINABILITY DELIVERY STATEMENTS

What we want to achieve	What we will have delivered by 30 June 2019
We carefully consider the costs of the services we offer to achieve the most appropriate client outcomes.	We will have refined the way our finance team influences our performance management approach, ensuring that we manage the dual focus on the costs and outcomes of the services we provide while increasing our overall effectiveness. In doing so we will have been able to demonstrate our performance through clear commentary and an appropriate mix of leading and lagging performance measures.
	We will have provided advice to the Minister where we saw opportunities to deliver services more efficiently and effectively to New Zealanders but where legislation may have been perceived as a barrier.
We manage cost and liability growth.	We will have completed trials of new pathways of care and started the wider rollout of these pathways with our provider partners. This will have improved the delivery of treatment and rehabilitation services to clients while supporting the management of costs and longer-term liability growth.
	We will have identified a range of opportunities to optimise our systems, and will have decommissioned those no longer required without compromising client outcomes.
	We will have moved to a single, integrated procurement operating model to deliver new procurement efficiencies, and a consistent approach to market and commercial opportunities.
	We will have effectively managed controllable cost pressures while continuing to deliver high-quality outcomes for our clients.

Continued …

What we want to achieve	What we will have delivered by 30 June 2019
We apply the insurance approach when making investment decisions.	We will have continued to develop a deeper understanding of changes in injury causation and associated risk factors over the life courses of individuals. This will have involved us thinking beyond the ACC client experience and used a range of factors (such as interactions with other agencies, changes in earning potential and other demographic factors) to support better prevention, treatment and rehabilitation interventions. We will have monitored health outcomes and experiences to measure the extent to which people are 'fully' rehabilitated, improved our understanding of the efficacy of our treatment and rehabilitation pathways, and supported outcomes-based commissioning with providers. Our application of the insurance approach will have taken into account the opportunities to achieve synergies between ACC's services and other publicly funded medical and disability services. Any changes made to our approach to treatment purchasing will have considered the impacts on the wider health sector, and improving access and outcomes for clients.
We maintain investment performance above benchmarks.	We will have increased the use of our new investment management tools, reducing risks and redirecting resources towards increasingly value-add activities. Collectively, these measures will have created the environment for better investment decisions.
	We will have worked with the Minister of Finance's office and the Treasury to confirm communication requirements, ensuring that there is an effective line of sight.
	We will have continued to review and, where appropriate, update our ethical investment policy as part of our wider investment framework to reflect domestic and international progress in ethical investment practice.
Risk management is embedded across our organisation.	We will have implemented the next stages of our Risk Maturity Growth Plan: • staff will be using consistent, high-quality risk practices, showing an improvement in the quality and impacts of risk reporting, through the development and delivery of training and guidance on risk management. The purpose of this will have been to grow a strong risk culture using consistent and leading risk management practices • this will have provided us with a clearer understanding and visibility of risks, and allowed a thoughtful consideration of those risks in decision-making. Our risk appetite will have matured, using key risk indicators and measures to support risk appetite statements • risk management will have continued to be embedded within business groups, with support and coordination through an effective risk network and operating model. Delivering the plan will have raised our risk maturity and improved the longer-term sustainability of the Scheme.

Building organisational health and capability in 2018/19

To deliver our outcomes and our strategic intentions successfully we need to have high-performing, diverse teams that are focused on all our different customers. These teams must be supported by a suite of modern, reliable and secure systems.

- People – maintain a diverse, high-performing workforce empowered to deliver great customer experiences and outcomes
- Information – improve the way we use, protect and share information
- Technology – support ACC business outcomes with modern, reliable and secure information technology.

What we will deliver in 2018/19

Maintain a diverse, high-performing workforce empowered to deliver great customer experiences and outcomes

Our ability to deliver our strategic intentions depends on the culture and capabilities of our people.

Our leaders will have the capabilities and motivation to develop and nurture high-performing, customer-focused teams. Those leaders will make our environments, and those over which we have influence, injury free. In fact we will demonstrate genuine workplace safety leadership as an example for all New Zealand organisations. We know that reflecting New Zealand's diversity in our own workforce is important. It allows us to listen, respond to and anticipate our customers' needs more effectively while also creating the right conditions for our people to be highly engaged and proud to be part of our organisation.

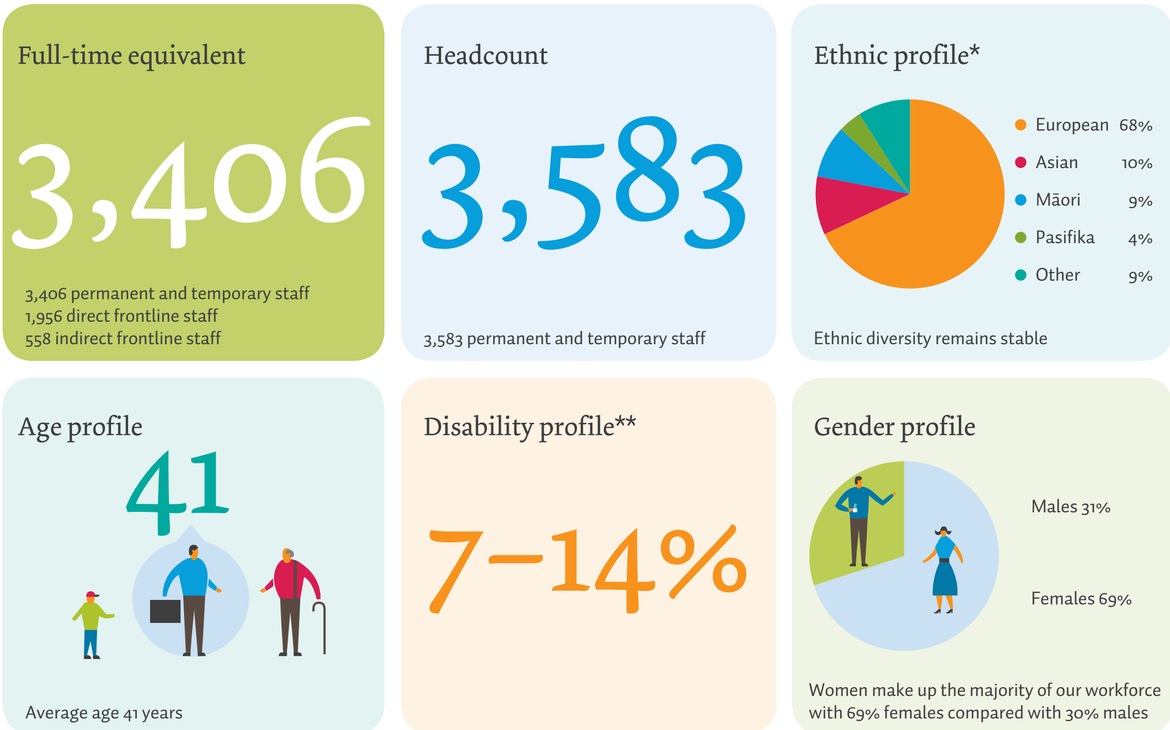
We will maintain a diverse, high-performing team by focusing on five people priorities:

TABLE 7: PEOPLE DELIVERY STATEMENTS

What we want to achieve	What we will have delivered by 30 June 2019
Our workforce reflects New Zealand's diversity.	We will have increased the availability, range and visibility of flexible work arrangements to support diversity.
	We will have created an environment and employment brand that increased the representation of Māori and employees with disabilities within our workforce.
We have highly motivated, capable leaders.	We will have enhanced our leadership capabilities by increasing the pool of future leaders and mitigating risks through deliberate succession planning.
We make our environments, and those we have influence over injury free.	We will have implemented the SafePlus framework to improve leadership, engagement and risk management in workplace health, safety and wellbeing.
Our people are capable and are proud to be part of ACC.	We will have improved employee engagement by building a 'Voice of the Employee' measurement suite to gain regular and insightful feedback, allowing us to take advantage quickly of opportunities to improve engagement and experiences.
	We will have implemented our leadership and employee development portals to embed a culture of continual learning and development for all of our people.

What we want to achieve	What we will have delivered by 30 June 2019
Our organisational design and our practices facilitate high performance now and into the future.	We will have developed a refined five-year workforce plan to describe clearly our changing workforce capability and capacity requirements, allowing us to ensure that we have the right capabilities and capacity now and into the future.

FIGURE 2: WORKFORCE PROFILE AND EQUAL OPPORTUNITIES (AS AT MARCH 2018)



* *Ethnic profile is based on data recorded within our human resources information system. In a recent diversity survey, a higher proportion of employees indicated Māori (13%) and Asian (12%) ethnicity, with lower proportions of European and Pasifika.*

** *During 2017/18 we conducted two employee surveys where employees had the opportunity to indicate a disability or long-term health condition. In the first one, 7% of respondents indicated a disability and in the second, a specific Diversity and Inclusion survey, 14% of respondents indicated a disability.*

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

Improve the way we use, protect and share information

We collect and use personal, confidential and sensitive information from a large number of people and entities, including clients, providers and business customers. Our relationship with this information is complex – some information is compelled by law, some is volunteered, some comes directly from our customers and some comes to us through third parties. We use that information to make decisions about a person's individual circumstances and in some cases we need to share it with others. New Zealanders must have confidence that this information is collected appropriately, stored securely and accurately and only disclosed with appropriate authority, and that they can access it when they need it.

What we will deliver in 2018/19

At the same time, our technology must empower our people by providing them with the tools to deliver positive outcomes for our clients. Part of this empowerment will come through improved data and analytics capabilities, enhancing our culture of data-driven decision-making to create a higher-performing, and more effective and efficient organisation.

We expect to achieve our intended information objectives through four priorities:

TABLE 8: INFORMATION DELIVERY STATEMENTS

What we want to achieve	What we will have delivered by 30 June 2019
We enable safe and appropriate sharing of information.	We will have further protected our customers' information by rolling out important updates to our systems, and invested to ensure our systems have the capacity to meet predicted future demands.
We are custodians of customer information.	We will have implemented our Privacy Assurance Framework, helping us to both better identify areas of privacy risk and carefully target activities to reduce those risks.
We enable the appropriate sharing of information across government.	We will have refined our 'privacy by design' approach, ensuring that it continues to reflect leading privacy management practices while supporting the need to share information appropriately across the sector.
	We will have increased our transparency with our clients on how their personal information is used and stored, increasing their confidence and trust in our information management processes and capabilities.
We have an organisation-wide strength in analytics.	We will have implemented new business analytics technologies to improve the way we use data, influencing the ways we deliver our services and improving our clients' outcomes and experiences.

Support ACC business outcomes with modern, reliable and secure information technology

ACC will continue to evolve as an organisation, requiring the development of new capabilities to respond to the challenge of offering our customers more choice with less effort when they interact with us.

In this changing environment, we need to ensure that our organisation, our clients and our providers are supported by reliable, safe and secure information technology. This technology needs to be flexible to allow us to adapt to changing needs quickly.

We will achieve our technology intentions by focusing on four priorities:

TABLE 9: TECHNOLOGY DELIVERY STATEMENTS

What we want to achieve	What we will have delivered by 30 June 2019
We maintain safe, secure and stable information technology.	We will have continued to maintain the stability and security of our information technology by implementing an appropriate maintenance programme and ensuring that our suite of technologies remains well integrated.
Our technology empowers our people.	We will have rolled out minor enhancements to our systems, allowing our operational teams to deliver services efficiently to our customers and improving our clients' experiences and outcomes.
Our technology enables our digital aspirations.	We will have continued to enhance our digital environment, allowing us to have: • piloted a broad programme of innovative ideas to inform how our customers interact with us • automated manual tasks and processes to remove friction and improve the quality of payments, data and services • increased the range of assisted and self-service options so that our customers can choose the best options to suit their needs • worked collaboratively with our providers to ensure that our solutions integrate seamlessly with their ways of working.
We create and maintain an adaptive technology environment.	We will have continued to develop our adaptive technology environment by: • implementing a range of modern technologies, supporting ACC to deliver an increased speed of change • investing in 'on-demand', outcome-based services • removing the legacy customisation of our core systems to provide more flexibility and agility, allowing us to upgrade or change more easily and delivering a better return on investment.

Continuing our transformation

The Shaping Our Future strategy to transform our organisation and the way we work with customers continues to be underpinned by six clear objectives:

- continue to improve customer trust and confidence in ACC
- improve the productivity of ACC
- reduce the number of productive days lost to injury
- empower and engage ACC's staff to deliver services more effectively
- enhance operational resilience to reduce exposure to operational failures such as privacy breaches
- improve levy collection.

The strategy is organisation-wide and it sets out what we need to do to become the ACC we want to be. It challenges us to question what we are doing today and how we could make it better for tomorrow.

A shift in approach

In recent years our Transformation Programme has been a key driver of real change under our Shaping Our Future strategy. The programme has managed a number of projects focused on improving our systems and processes. But more importantly the programme has been tasked with building ACC's culture and capabilities so that we become an organisation that never has to transform again.

Our transformation capability has now matured and, with a customer-focused operating model and culture in place, delivering service improvements is something we do every day. This means that we no longer need a dedicated programme. Instead, we will deliver transformative initiatives on a project-by-project basis through an integrated portfolio.

Our integrated portfolio approach

An integrated portfolio of work enables us to adjust investments dynamically to focus on areas that will contribute to our strategic objectives and respond more quickly to the changing needs of our customers. Individual business cases for change initiatives can be presented and trade-offs made at the portfolio level to ensure that the level of investment is sustainable from change, delivery and cost perspectives.

To date our transformation has been focused on the replacement of core technologies (levy, policy and collections). This has been necessary to address operational risk and performance, and to create a platform for other change initiatives. Our next wave of investments is focused on taking advantage of this platform while refreshing other technologies:

- supporting our customers to use digital channels for self-service
- providing better outcomes and experiences for clients by providing a more consistent, streamlined and simplified service that focuses time and resources on the clients who need it most
- improving client rehabilitation outcomes by ensuring that ACC uses data effectively to drive clinical insights and encourage the adoption of proven treatment protocols
- changing the ways we work with our providers to:
  - create greater collaboration on client outcomes
  - increase the rigour of provider performance management
  - shift towards alternative methods of purchasing services
  - use technology to share information in accordance with 'privacy by design' principles
- improving the transparency of decisions, which will be available to customers through technology changes.

Throughout this continued period of change, we will ensure that we plan carefully and keep a close eye on how we are doing, especially when looking to maintain accuracy and privacy.

Over time we will also develop our ability to integrate what we are doing with many government departments, such as Inland Revenue and the Ministry of Social Development. Again, this is solely aimed at making it easier for New Zealanders to deal with one entity that can interact with others, thereby streamlining many activities.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Statement of performance expectations

Statement of performance expectations by output

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:

- the link between our strategic intentions and outputs
- a brief explanation of what is intended to be achieved within each output
- an explanation of how performance under each output will be assessed. These measures evaluate our performance in terms of quality, cost and timeliness
- 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 measures' targets.

We will report quarterly against a wide range of output performance measures to assess whether our activities are making a difference and the extent to which we are achieving our strategic intentions. Each measure has a target for each year from 2018/19 to 2021/22.

Breakdown of budget against output classes

TABLE 10: 2018/19 BUDGET BY OUTPUT CLASS

	2018/19 budget		
($M)	Administration	Claims paid	Revenue
Output class			
Output class 1 – Injury prevention	80		
Output class 2 – Levy setting and collection	39		4,375
Output class 3 – Investment management	57		1,549
Output class 4 – Claims management	462	4,291	
Total	**638**	**4,291**	**5,924**
Other operating costs	88		
Total ACC	**726**	**4,291**	**5,924**

Other operating costs include indirect costs allocated to all four outputs by support business groups such as Finance, Talent, Information Technology and executive management.

Aligning our strategic intentions with the outputs

Our outputs are clearly related to our three externally focused strategic intentions.

FIGURE 3: ALIGNMENT OF STRATEGIC INTENTIONS WITH OUTPUTS

INCREASE THE SUCCESS OF OUR INJURY PREVENTION ACTIVITIES	**Output 1** Injury prevention	By developing and delivering the ACC and cross-government injury prevention strategy
IMPROVE OUR CUSTOMERS' OUTCOMES AND EXPERIENCES	**Output 2** Levy setting and collection	By working closely with our business customers (largely employers and self-employed) to identify appropriate products, to invoice accurately and to collect levies
	Output 4 Claims management	By working closely with our clients and their families to return them to independence as soon as possible, and by collaborating with our providers to achieve the most appropriate outcomes for our clients
IMPROVE THE FINANCIAL SUSTAINABILITY OF THE SCHEME	**Output 1** Injury prevention	By only investing in a portfolio of injury prevention activities that will lead to a positive return on investment
	Output 2 Levy setting and collection	By recommending levies that are sufficient to cover the costs of claims incurred in each year and collecting the levies approved by Cabinet
	Output 3 Investment management	By investing effectively in order to meet the future costs of claims from injuries already incurred
	Output 4 Claims management	The costs associated with this output class have the largest bearing on overall Scheme financial performance. To achieve cost stability we must balance the quality, efficiency and effectiveness of services delivered to clients

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.

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 efforts on injuries that affect the Scheme, such as high-cost and high-volume claims that affect claim costs, the OCL and levies.

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

TABLE 11: OUTPUT 1 PERFORMANCE MEASURES

		Actual		Target			
Measure	Rationale	2016/17	Mar 2018	2018/19	2019/20	2020/21	2021/22
Key measure The portfolio of injury prevention investments will have an assessed positive return on investment.	We invest to keep New Zealanders safe from accidental injury by working with others to reduce the risks across a range of areas. We take a portfolio approach. This means overall we expect our injury prevention programmes to deliver positive returns on investment.	\$1.63:\$1	\$1.86:\$1	\$1.80:\$1	\$1.85:\$1	\$1.90:\$1	\$1.95:\$1
Supporting measure Number of claims avoided through our injury prevention investments.	Our investment in changing the behaviours of New Zealanders should reduce the number of injuries sustained and the severity of any injuries that occur.	New measure	7,657 YTD	11,000	12,100	13,310	14,641
Key measure Rate of serious injury.		New measure	74.3	73.8	73.4	72.9	72.5

For information on the other measures we use to assess our output performance, refer to Appendix 4 – Other performance measures.

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.

TABLE 12: OUTPUT 2 PERFORMANCE MEASURES

		Actual		Target			
Measure	Rationale	2016/17	Mar 2018	2018/19	2019/20	2020/21	2021/22
Key measure Scheme solvency.	The solvency of our levied Accounts, which is measured as the ratio of net assets to the OCL in each Account, provides an indication of funding adequacy. The AC Act sets a goal of full funding for the levied Accounts.	96.7%	97.7%	95.0%	94.2%	93.0%	91.5%
Supporting measure 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.	0.8	Annual measure	0.7-0.9	0.7-0.9	0.7-0.9	0.7-0.9
Supporting measure Actuarial movement.	This provides an indicator of the effectiveness of our management of the controllable factors driving the OCL.	New measure	1.1%	Within +/- 2%	Within +/- 2%	Within +/- 2%	Within +/- 2%

For information on the other measures we use to assess our output performance, refer to Appendix 4 – Other performance measures.

How we are funded

FIGURE 4: SOURCES OF ACCOUNT FUNDING

	The Account and who funds it	What's covered	2015/16	2016/17	2017/18	2018/19
	Work Account **Employers:** Based on wages paid to staff **Self-employed:** Based on income earned	Work-related injuries	$0.90 per $100 liable earnings	$0.80 per $100 liable earnings	$0.72 per $100 liable earnings	$0.72 per $100 liable earnings
	Earners' Account **Employees:** Based on income earned **Self-employed:** Based on income earned	Non-work injuries to people in employment	$1.26 per $100 liable earnings	$1.21 per $100 liable earnings	$1.21 per $100 liable earnings	$1.21 per $100 liable earnings
	Motor Vehicle Account **Vehicle owners:** Funded through petrol use and the motor vehicle licensing fees	Injuries that involve moving motor vehicles on public roads	$195.00 per motor vehicle	$131.00 per motor vehicle	$113.94 per motor vehicle	$113.94 per motor vehicle
	Non-Earners' Account **The Government:** Funded by general taxation	Injuries that happen to people not in the paid workforce				
	Treatment Injury Account **All New Zealanders:** Funded by the Earners' and Non-Earners' Accounts	Injuries caused by medical treatment				

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

INCOME BY ACCOUNT

Table 13 shows our 2018/19 forecasts for the number of funders, and the levy and appropriation revenue, for each Account.

TABLE 13: INCOME BY ACCOUNT

		Forecast 2018/19
Levy-funded Accounts		
Work Account	Number of employed and self-employed	2,576,000
	Levy revenue ($million)	786
Earners' Account	Number of earners	2,576,000
	Levy revenue ($million)	1,551
Motor Vehicle Account	Number of vehicles	3,900,000
	Levy revenue ($million)	422
Government-funded Account		
Non-Earners' Account	Number of non-earners	2,331,000
	Government appropriation ($million)	1,273
Mixed-funded Account		
Treatment Injury Account	Number of non-earners	2,331,000
	Government appropriation ($million)	192
	Number of earners	2,576,000
	Levy revenue ($million)	151

Scheme solvency

Financial sustainability is best shown by Scheme solvency, which is measured as the ratio of net assets to the OCL in each of ACC's Accounts and provides an indication of funding adequacy. Year-on-year changes in Scheme solvency are the measures of ACC's performance against the full funding target for each levied Account.

Each Account operates independently and cannot cross-subsidise another. For this reason we also monitor forecast funding ratios by Account for the year.[7]

The 10-year funding policy adopted this year is designed to reduce the volatility of levy rates and the solvency of Accounts due to changes in operating settings, economic factors or investment earnings.

TABLE 14: ACCOUNT SOLVENCY

As at 30 June (%)	Forecast 2017/18	Budget 2018/19
Motor Vehicle Account	112.6%	112.2%
Non-Earners' Account	43.0%	43.3%
Earners' Account	109.6%	106.8%
Treatment Injury Account	66.6%	66.6%
Work Account	122.0%	122.4%
ACC	**92.8%**	**92.2%**

The Non-Earners' and Treatment Injury Accounts' solvency positions appear low. The funding policy for the Non-Earners' Account and the portion of the Treatment Injury Account funded out of the Non-Earners' Account is set by the Government in a way that is consistent with the AC Act. Pre-2001 claims are funded through appropriation on a pay-as-you-go basis, while post-2001 claims are funded through appropriation on a fully funded basis (excluding the inclusion of a risk margin on the liability being funded).

7. *The Work Account funding ratio model shown includes the additional liability for work-related gradual process claims not yet made. When only including the OCL for claims made to ACC (as required by the AC Act and in accordance with accounting standards):*
   - *the total forecast ACC Work Account funding ratio as at 30 June 2018 is 148.8%*
   - *the total forecast ACC funding ratio as at 30 June 2018 is 95.8%*
   - *the budgeted Work Account funding ratio as at 30 June 2019 is 149.0%*
   - *the total budgeted ACC funding ratio as at 30 June 2019 is 95.0%.*

Output 3: Investment management

What is intended to be achieved?

The purpose of our investment portfolio is to meet the future costs of incurred claims from long-term injuries without the need for any catch-up contributions from future levy payers. To meet this purpose, 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. Interest rate declines mean that we need to put aside more money in the present to fund every dollar of future claim costs.

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

- review strategic asset allocations to ensure that the benchmark asset allocations provide 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.

Statement of performance expectations

How we will know we have achieved this

TABLE 15: OUTPUT 3 PERFORMANCE MEASURES

Measure	Rationale	Actual 2016/17	Actual Mar 2018	Target 2018/19	Target 2019/20	Target 2020/21	Target 2021/22
Key measure Investment performance after costs relative to benchmark.	The quality of our investment management can only be gauged by comparing our returns net of costs with that of a blended market average benchmark, which provides a comparison with the asset classes in which we have invested.	1.35%	-0.25%	0.30%	0.30%	0.30%	0.30%
Supporting measure Investment management costs as a proportion of total funds under management.	The efficiency of our investment management is measured by expressing total investment management costs as a proportion of the total funds under management.	0.14%	0.14%	0.15%	0.15%	0.15%	0.15%

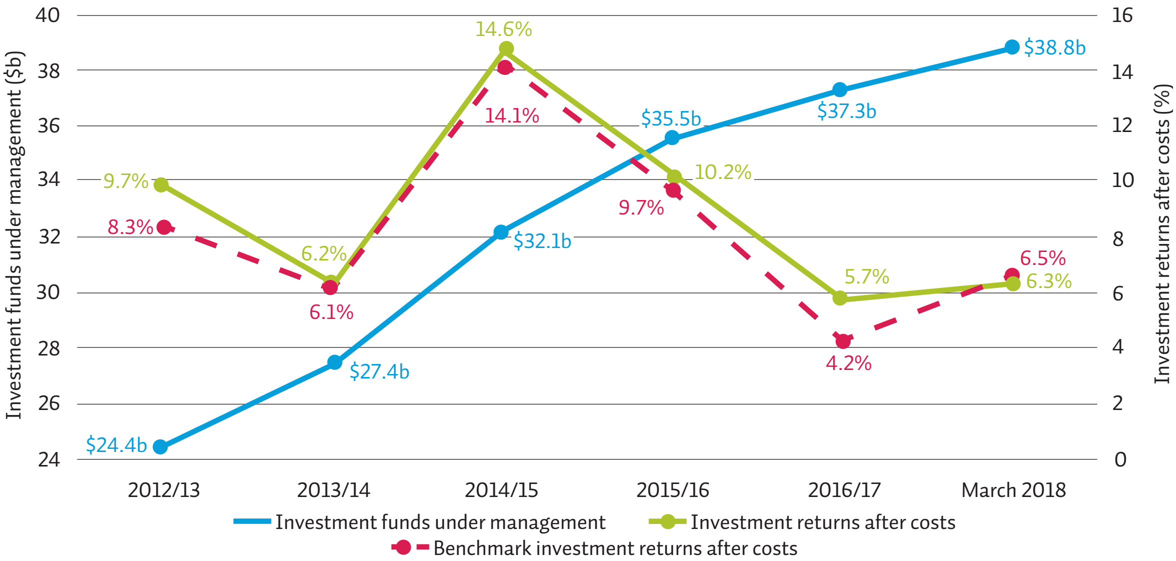
For information on the other measures we use to assess our output performance, refer to Appendix 4 – Other performance measures.

Activity information

INVESTMENTS

ACC had $38.8 billion of investment funds at the end of March 2018 and has returned 6.3% in the 2017/18 financial year to date.

FIGURE 5: HISTORICAL FUNDS UNDER MANAGEMENT AND INVESTMENT RETURNS



EXPECTATIONS AS A CROWN FINANCIAL INSTITUTION

The Government communicates key priorities for ACC as a Crown Financial Institution through the annual letter of expectations from the Minister of Finance. These priorities are presented in Appendix 3 – Letters of expectations and are summarised in Appendix 5 – Investment statement.

Output 4: Claims management

What is intended to be achieved?

We help injured people covered by the Scheme to get the appropriate medical treatment, social and vocational rehabilitation services and compensation to enable a 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.

How we will know we have achieved this

TABLE 16: OUTPUT 4 PERFORMANCE MEASURES

		Actual		Target			
Measure	Rationale	2016/17	Mar 2018	2018/19	2019/20	2020/21	2021/22
Key measure 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.	68.4%	67.6%	68.5%	69.0%	70.0%	71.0%
Supporting measure Return to work within nine months.		93.1%	93.1%	93.3%	93.4%	93.5%	93.5%
Supporting measure Proportion of clients who go ahead with surgery and are successfully rehabilitated 12 months after being approved for surgery.		84.7%	84.5%	85.0%	85.0%	85.0%	85.0%
Supporting measure Durable return to work.		80.0%	Annual measure	1% higher than Australia (last year)	1% higher than Australia	1% higher than Australia (last year)	1% higher than Australia
Supporting measure Weekly compensation days paid reduction.[8]		-0.9 days	-0.9 days	0.5 days	1.0 days	3.0 days	4.0 days
Key measure Return to independence for those not in the workforce.		85.8%	86.9%	86.0%	86.0%	86.0%	86.0%
Key measure 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 stakeholders.	62%	59%	65%	70%	75%	80%

Continued …

8. *The target reduction in the average weekly compensation days paid is expected to deliver cumulative nominal savings of $8.5 million in the five-year period ended 30 June 2021.*

Measure	Rationale	Actual 2016/17	Actual Mar 2018	Target 2018/19	Target 2019/20	Target 2020/21	Target 2021/22
Key measure Client net trust score.	If we get the experiences and outcomes right, our clients will trust us and have confidence in our abilities.	+23.0	+27.0	+30.6	+34.8	+39.0	+39.0
Key measure Client net trust score for Māori[9]		TBD	TBD	TBD	TBD	TBD	TBD
Supporting measure Speed of cover decisions.		1.2 days	1.12 days	1.10 days	1.10 days	1.10 days	1.10 days
Supporting measure Reviews as a percentage of decline decisions.		New measure	7.4%	<7.1%	<7.0%	<7.0%	<7.0%
Supporting measure Average time to resolution for claims with reviews.		94.8 days	99.7 days	<96.5 days	<94.0 days	<91.5 days	<89.0 days
Supporting measure Proportion of ACC reviews upheld (in favour of ACC).		81.7%	81.0%	≥82.0%	≥83.0%	≥84.0%	≥85.0%
Key measure Provider net trust score.	Successful partnering through simplified business operating structures and enhanced technology platforms will increase the trust and confidence our providers have in us.	-11.0	-11.0	-10.0	-10.0	-2.0	+2.0
Key measure Business net trust score.	Simpler business operating structures and enhanced technology platforms will make it easier for business customers to work with us.	-35.0	-16.0	-14.0	-13.0	-9.0	-9.0
Key measure Growth rate of the Long Term Claim Pool.[10]	Getting clients back to independence is positive for them and can make a significant difference to the long-term costs of the Scheme.	New measure	3.7% YTD	3.1%	1.0%	0.2%	0.2%
Supporting measure Long Term Claim Pool returns to independence.		3,340	3,374	3,729	4,170	4,474	4,566
Supporting measure Rate of long-term clients in part-time work.		11.9%	11.7%	12%	12%	12%	12%

Continued …

9 *During the course of 2018/19, we will define this key performance measure to demonstrate the impact we are having to improve outcomes for Māori clients.*

10. *In this context, 'long term' refers to clients who have received weekly compensation for more than 365 days.*

Measure	Rationale	Actual 2016/17	Actual Mar 2018	Target 2018/19	Target 2019/20	Target 2020/21	Target 2021/22
Key measure Change in average treatment cost.	Managing costs means we are effectively countering inflationary pressures while delivering effective services to our clients when needed.	3.4%	3.8%	≤5.0%	≤4.5%	≤3.5%	≤3.0%
Supporting measure Administration costs per active claim. [11]		$2,444	$2,483	$2,395	$2,307	$2,087	$2,020
Supporting measure Percentage of total expenditure paid directly to clients, or for services to clients.		85.8%	86.0%	86.2%	86.8%	88.0%	88.8%
Supporting measure Claims processed per FTE.[12]		572	576	585	610	636	662
Key measure Average care hours per serious injury claim.		New measure	1,021 YTD	1,406	1,410	1,414	1,417

For information on the other measures we use to assess our output performance, refer to Appendix 4 – Other performance measures.

Activity information

CLAIMS ACTIVITY

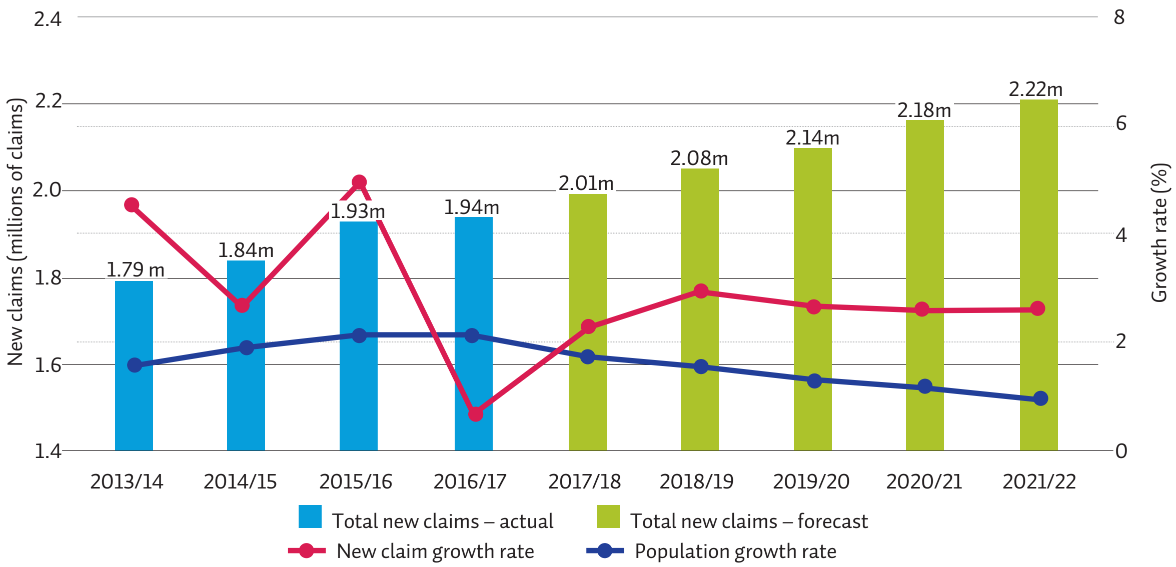
Our analysis has demonstrated a strong correlation between claim volume growth and four key drivers:

- **population** – as the population increases, the number of claims increases (assuming the rate of injury stays constant)
- **GDP** – an increase in the rate of GDP growth will increase the rate of new claim growth
- **unemployment** – as unemployment goes up claim numbers tend to reduce
- **distance driven** – motor vehicle claim volumes increase as the total distance travelled increases.

We have developed a model to help us to forecast claim volumes in order to ensure that we can respond to the anticipated demand for our services. If actual claim volumes differ significantly from our forecast claim volumes, our ability to achieve performance targets successfully may be affected.

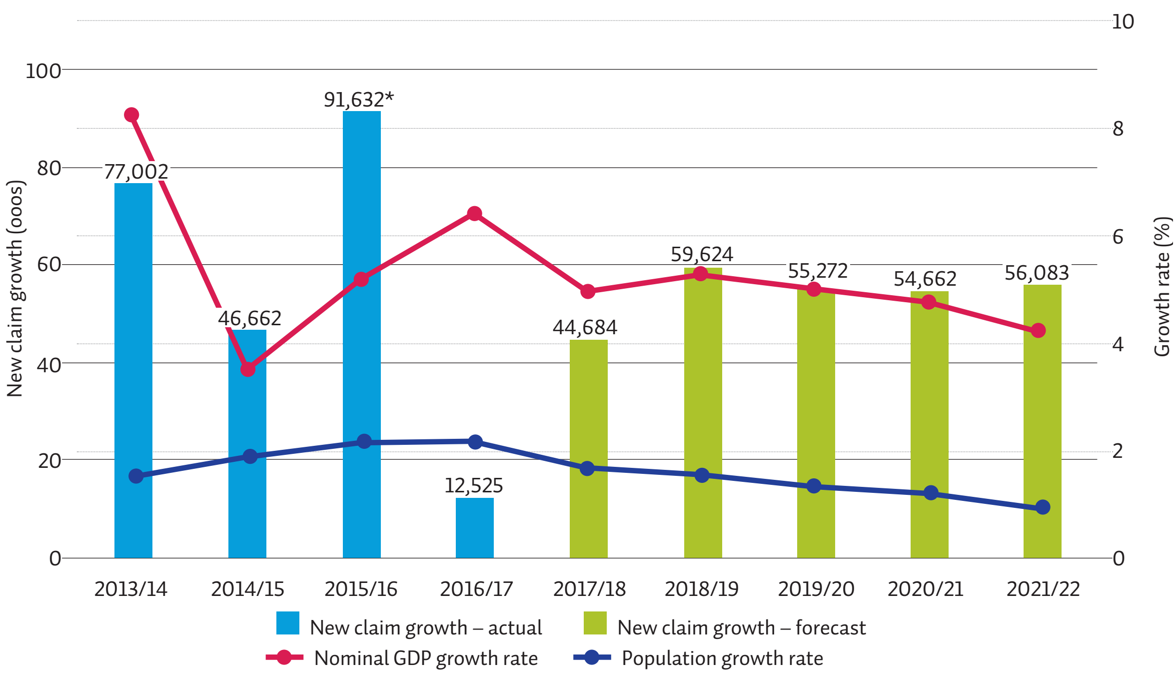
11. *The method for calculating the results for this performance measure will change from 2018/19. In the future, administration costs will exclude costs associated with the management of reviews. These costs will instead be included in claims costs.*
12. *The target increase in claims processed per FTE is expected to deliver cumulative nominal savings of $106 million in the five-year period ended 30 June 2021.*

FIGURE 6: TOTAL NEW REGISTERED CLAIMS VS. RATE OF NEW CLAIM GROWTH, BY YEAR (ACTUAL, FORECAST)



Forecasts of our claim volume drivers project a general decline in the growth rates of nominal GDP and population between 2018/19 and 2021/22. This is expected to drive a stable, then declining rate of new claim growth in the next four years.

FIGURE 7: TOTAL NEW REGISTERED CLAIM GROWTH RATE VS. SELECTED CLAIM DRIVER RATES, BY YEAR (ACTUAL, FORECAST)



* *Legislative and policy changes also have an impact on claim volume growth. For example, the introduction by the Government of 24-hour free medical care for children aged 12 and under from 1 July 2015 increased claim volumes by approximately 15,000 in the second half of 2015/16 alone.*

Table 17 shows recent trends in the types of claim that we receive and accept. 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 types and amounts of services that those who have covered injuries are eligible to receive.

TABLE 17: HISTORICAL CLAIM VOLUMES, BY TYPE

Measure	Definition	2014/15	2015/16	2016/17	Mar 2018
Registered claims.	Total number of registered claims in the period.	1,838,634	1,930,266	1,942,715	1,965,789[13]
Medical fees only claims.	Total number of medical fees only claims in the period.	1,592,995	1,658,686	1,669,849	1,192,104
Other entitlement claims.	Total number of entitlement claims (all entitlement claims excluding weekly compensation) that receive payments in the period.	105,374	110,675	116,001	106,558
Weekly compensation claims.	Total number of weekly compensation claims that receive payments in the period.	100,726	106,962	113,439	95,276
Long-term weekly compensation claims.	Number of clients receiving weekly compensation for more than one year as at 30 June.	11,483	12,290	12,691	13,165
New serious injury claims.	Total number of new serious injury claims in the period.	290	282	209	140
Fatal claims.	Total number of fatal claims in the period.	1,278	1,249	1,261	805

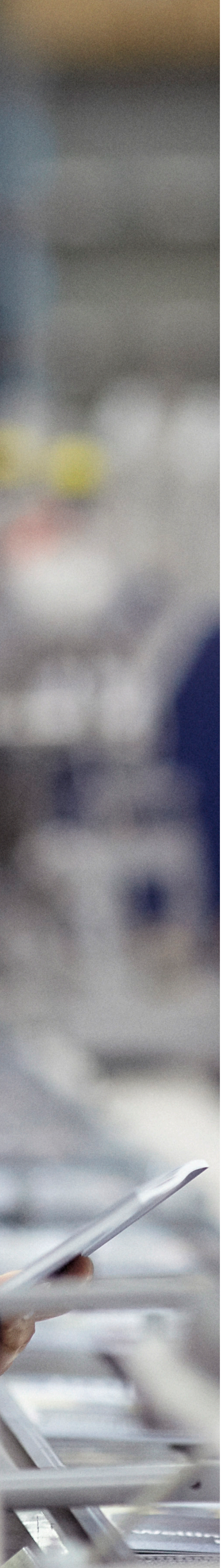
We enable clients to receive the appropriate entitlements under the Scheme while at the same time keeping total expenditure financially sustainable. We monitor expenditure against budget for the key cost drivers of the Scheme.

TABLE 18: EXPENDITURE AGAINST KEY COST DRIVERS

	Actual		2018/19
($M)	2016/17	Mar 2018	Forecast
Non-fatal weekly compensation	1,184	883	1,292
Social rehabilitation	647	553	801
Medical treatment	712	560	830
Hospital treatment (elective surgery)	332	258	361
Public health acute services	477	369	515

Statement of performance expectations

13. *Registered claims as at March 2018 are for the prior 12 months. All other figures as at March 2018 are year to date.*



Financial information

Forecast financial information

Introduction

The information below sets out the 2018/19 budgets for ACC. Comparative information is based on the forecast financial results for the year to 30 June 2018, prepared as at 28 February 2018.

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

Overall results

The budget for 2018/19 is a deficit of $386 million compared with the forecast deficit of $414 million for 2017/18. The projected deficit for 2018/19 (in comparison with the 2017/18 forecast deficit) is mainly due to the combined impact of:

- a smaller 2018/19 forecast increase in the OCL (driven by the expected lower rate of growth in the number of claims being managed), a reduction of $819 million compared with the 2017/18 forecast
- projected increases in levy income ($265 million)
- projected decreases in net investment income ($990 million).

The budget accumulated deficit (net liabilities) will therefore increase to $2,058 million at 30 June 2019.

STATEMENT OF COMPREHENSIVE INCOME BY ACCOUNT (BUDGET)

($M)	Motor Vehicle Account	Non-Earners' Account	Earners' Account	Work Account	Treatment Injury Account	Total ACC	2017/18 forecast
	2018/19 budget						
Income							
Levies and appropriations	**422**	**1,273**	**1,551**	**786**	**343**	**4,375**	**4,110**
Investment income	446	172	399	355	177	1,549	2,533
Less investment costs	18	5	14	14	6	57	51
Net investment income	**428**	**167**	**385**	**341**	**171**	**1,492**	**2,482**
Total income	**850**	**1,440**	**1,936**	**1,127**	**514**	**5,867**	**6,592**
Expenditure							
Claim costs							
Claims paid	601	1,163	1,493	795	239	4,291	3,986
Change in unexpired risk liability	7		(81)	(34)		(108)	151
Change in OCL	200	234	508	110	349	1,401	2,220
Total claim costs	**808**	**1,397**	**1,920**	**871**	**588**	**5,584**	**6,357**
Expenses							
Injury prevention costs	11	25	14	19	11	80	70
Operating costs	55	127	206	169	32	589	579
Total expenses	**66**	**152**	**220**	**188**	**43**	**669**	**649**
Total expenditure	**874**	**1,549**	**2,140**	**1,059**	**631**	**6,253**	**7,006**
Surplus/(deficit)	**(24)**	**(109)**	**(204)**	**68**	**(117)**	**(386)**	**(414)**

Statement of changes in reserves (equity)

STATEMENT OF CHANGES IN RESERVES (EQUITY) (BUDGET)

($M)	Motor Vehicle Account	Non-Earners' Account	Earners' Account	Work Account	Treatment Injury Account	Total ACC	2017/18 forecast
	2018/19 budget						
Reserve – opening balance/(deficit)	1,311	(4,844)	811	3,131	(2,081)	(1,672)	(1,258)
Net surplus/(deficit)	(24)	(109)	(204)	68	(117)	(386)	(414)
Reserve – closing balance/(deficit)	**1,287**	**(4,953)**	**607**	**3,199**	**(2,198)**	**(2,058)**	**(1,672)**

Funding ratio[14]

TABLE 19: BUDGET FUNDING RATIO

($M)	2018/19 budget Motor Vehicle Account	Non-Earners' Account	Earners' Account	Work Account	Treatment Injury Account	Total ACC	2017/18 forecast
Assets less other liabilities/OCL	112.2%	43.3%	106.8%	122.4%	66.6%	92.2%	92.8%

Levy revenue

LEVY RATES

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

TABLE 20: BUDGET LEVY RATES

Account	2017/18	2018/19
Motor Vehicle	$113.94 per vehicle through licensing fees and petrol levies	$113.94 per vehicle through licensing fees and petrol levies
Earners'	$1.21 per $100 liable earnings	$1.21 per $100 liable earnings
Work	$0.72 per $100 liable earnings	$0.72 per $100 liable earnings

LEVY REVENUE

The $4,375 million levy revenue for 2018/19 is $265 million higher than forecast for 2017/18. The budgets for levy revenue incorporate:

- levy rates as approved for 2018/19
- the current approved Non-Earners' Account appropriation of $1,465 million
- earnings in employment derived from economic forecasts accounting for employment growth (from 2.53 million people at 30 June 2018 to 2.58 million people at 30 June 2019) and earnings' growth (a 2.77% increase in average weekly earnings to 30 June 2019)
- changes in motor vehicle registrations and petrol consumption forecast for the 2018/19 year (the number of vehicles is forecast to increase by 3.0% in 2018/19)
- the Non-Earners' appropriation, including the non-earners' portion of the Treatment Injury Account, which has increased from $1,354 million to $1,465 million.

14. *The Work Account funding ratio shown includes the additional liability for work-related gradual process claims not yet made. When only including the OCL for claims made to ACC (as required by the AC Act and in accordance with accounting standards):*
    - *the budgeted Work Account funding ratio as at 30 June 2019 is 149.0%*
    - *the total budgeted ACC funding ratio as at 30 June 2019 is 95.0%*
    - *the total forecast ACC funding ratio as at 30 June 2018 is 95.8%.*

Non-Earners' Account appropriation

The Minister purchases from ACC 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 Labour Market.

TABLE 21: BUDGET NON-EARNERS' ACCOUNT OUTPUT EXPENSES

($M)	2018/19 budget	Relevant ACC activity	Relevant ACC output class
Case management and supporting services.	182	Setting, invoicing and collecting levies – the Vote Labour Market 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.	888	Payments to providers for services including social rehabilitation, medical treatment and vocational rehabilitation.	4 Claims management
Public health acute services.	312	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.	83	Direct payments of entitlements to clients including weekly compensation, independence allowances and lump sum payments.	4 Claims management
Total	**1,465**		

Claims paid

TABLE 22: BUDGET CLAIMS PAID

($M)	2017/18 forecast	2018/19 budget	Variance F/(U)
Rehabilitation			
Treatment	1,743	1,877	(134)
Vocational rehabilitation	99	102	(3)
Social rehabilitation	748	801	(53)
Total	**2,590**	**2,780**	**(190)**
Compensation			
Income maintenance	1,216	1,292	(76)
Other compensation and benefits	180	219	(39)
Total	**1,396**	**1,511**	**(115)**
Total cash cost of claims	**3,986**	**4,291**	**(305)**

Rehabilitation costs are budgeted to increase by $190 million (7.3%) to $2,780 million, driven mainly by increasing claim numbers and inflation.

Income maintenance costs are budgeted to increase by $76 million (6.3%) to $1,292 million, reflecting an increase of 4.0% in entitlement claim volumes during the year, growth in the labour cost index of 1.97%, and an increase in average weekly earnings of 2.77%.

Other compensation and benefit costs are budgeted at $219 million, an increase of $39 million (21.7%). This increase is due to forecast claim volume increases, the impact of inflation and an increase in the expected costs of independence allowances ($29 million). The increase in independence allowances is due to the capitalisation payments every five years since a 2002 change in legislation.

Increase in outstanding claims liability (OCL)

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 $39,959 million to $41,360 million during 2018/19, an increase of $1,401 million. This reflects the 31 December 2017 valuation, with adjustments to reflect economic assumptions as at 28 February 2018.

TABLE 23: BUDGET MOVEMENT IN THE OCL

OCL ($M)	2017/18 forecast	2018/19 budget	Variance F/(U)
Value at year open	37,739	39,959	
Value at year end	39,959	41,360	
Increase/(decrease) in OCL	**2,220**	**1,401**	**819**

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.

TABLE 24: BUDGET MOVEMENT IN UNEXPIRED RISK LIABILITY

($M)	2017/18 forecast	2018/19 budget	Variance F/(U)
Value at year open	679	830	
Value at year end	830	722	
Increase/(decrease) in unexpired risk liability	**151**	**(108)**	**259**

Operating costs

ACC's operating costs comprise claim handling, levy collection and other operating costs. The 2018/19 operating costs budget of $589 million is $10 million higher than the forecast for 2017/18. This reflects the current estimate of the impact on operating costs of the Integrated Change Investment Portfolio of $87 million in the 2018/19 year (a reduction from the 2017/18 forecast of $96 million), which is offset by growth in the size of the organisation. This organisation growth is seen through personnel (up $5 million in the 2018/19 year compared with the 2017/18 forecast), technology costs (up $11 million) and depreciation (up $7 million), offset by some cost savings in other areas of expenditure (down $4 million).

TABLE 25: BUDGET OPERATING COSTS

Operating costs by classification ($M)	2017/18 forecast	2018/19 budget	Variance F/(U)
Claim handling	453	462	(9)
Levy collection	39	39	
Other operating	87	88	(1)
Total operating costs	**579**	**589**	**(10)**

Investment income

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

Investment income in the 2018/19 year has been calculated by Account. The projected rate of return range in 2018/19 is 3.69% to 4.57% per annum, depending on the Account.

Statement of financial position

STATEMENT OF FINANCIAL POSITION (BUDGET)

As at 30 June ($M)	2017/18 forecast	2018/19 budget	Variance F/(U)
Total reserves	**(1,672)**	**(2,058)**	**(386)**
Assets			
Investments	39,736	40,472	736
Other assets	3,086	3,523	437
Total assets	**42,822**	**43,995**	**1,173**
Liabilities			
Claims liability	39,959	41,360	(1,401)
Other liabilities	4,535	4,693	(158)
Total liabilities	**44,494**	**46,053**	**(1,559)**
Net assets	**(1,672)**	**(2,058)**	**(386)**

Capital expenditure

TABLE 26: BUDGET CAPITAL EXPENDITURE

($M)	2017/18 forecast	2018/19 budget	Variance F/(U)
Property, plant and equipment			
Maintenance – information technology	3	4	(1)
Property	3	5	(2)
Motor vehicles, equipment	1	2	(1)
Total	**7**	**11**	**(4)**
Intangible assets			
Change initiatives	56	54	2
Maintenance – information technology	10	12	(2)
Total	**66**	**66**	**–**
Total capital expenditure	**73**	**77**	**(4)**

The proposed 2018/19 capital expenditure of up to $77 million is $4 million higher than the forecast for 2017/18, mainly due to the completion of significant investment programmes in the current financial year. Maintenance – IT is the IT infrastructure expenditure on maintaining and implementing minor enhancements to existing core applications. Property spend is the necessary annual spend to ensure that our property is fit for purpose.

Financial risks

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

A major risk is the effects of economic factors that are not controlled by ACC (for example wage and cost inflation, and interest rates) on future claim payments, investment income and the projected OCL.

At this time we are increasingly certain about the nature, timing and magnitude of expenditure related to planned organisational change projects, but it is important to recognise that these figures are estimates only and are subject to the completion of detailed designs and implementation plans.

Statement of cash flows

STATEMENT OF CASH FLOWS (BUDGET)

($M)	2017/18 forecast	2018/19 budget
Operating activities		
Cash flows from operating activities		
Cash was provided from:		
Levy revenue and other income	4,124	4,235
Investment income	1,260	1,333
Cash provided from operating activities	**5,384**	**5,568**
Cash applied to operating activities	4,682	4,970
Net cash movement from operating activities	**702**	**598**
Investing activities		
Net cash movement from investing activities	**(612)**	**(598)**
Financing activities		
Net cash movement from financing activities		
Net increase in cash and cash equivalents	**90**	–
Cash and equivalents – opening balance	**93**	**183**
Cash and equivalents – closing balance	**183**	**183**

Summary of other important assumptions

Our financial statements are underpinned by a range of assumptions. In addition to those noted earlier in this section, we adopt a range of forecasts for those indices that drive aspects of our financial performance.

TABLE 27: IMPORTANT ASSUMPTIONS

	Indices (year to June)				
Index	2018	2019	2020	2021	2022
Claim volume growth	2.30%	3.00%	2.70%	2.60%	2.60%
Entitlement claim growth	4.00%	4.00%	3.90%	3.90%	1.60%
Population growth	1.96%	1.66%	1.45%	1.26%	1.07%
Consumer price index	2.17%	0.99%	1.77%	1.77%	1.77%
Labour cost index	1.87%	1.97%	1.97%	1.97%	1.97%
Average weekly earnings	2.77%	2.77%	2.77%	2.77%	2.77%

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.

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 rates. 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 levies received in the current period. This assessment is referred to as the liability adequacy test and is performed for each Account. Gradual process claims (or latent 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 (OCL)

The OCL 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 OCL is the central estimate of the present value of expected future payments for 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 gradual process claims that have not yet been reported are not included in the OCL. ACC's major exposure to gradual process 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 gradual process 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 the event giving rise to a claim occurred. Under 'claims made' policies, an insurer only has liability for reported claims.

F) INVESTMENTS

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

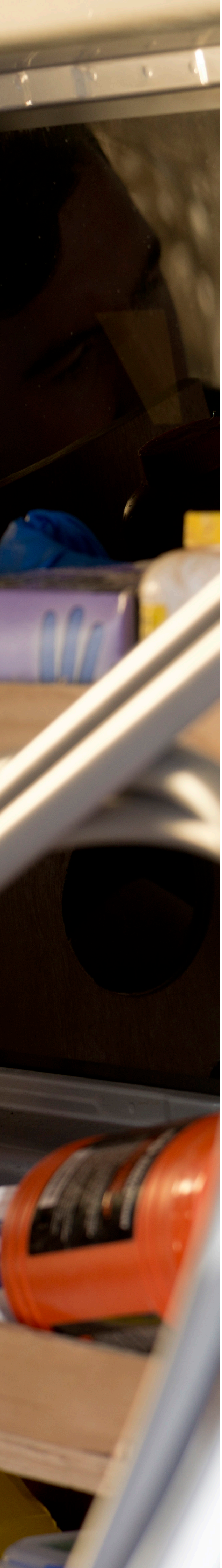
Fair value for investments is determined as follows:

- 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 to accounting policies.


EXPERT
Plumbing & Gas
High-Five
KONNECT



Appendices

Appendix 1 – Alignment of the Service Agreement

How the Service Agreement aligns with our other accountability documents

We have three key accountability documents:

STATEMENT OF INTENT
Covers a four-year period and outlines our medium-term strategic intentions

SERVICE AGREEMENT
Annual agreement with the Minister for ACC setting out the services we will deliver and the expected performance standards

ANNUAL REPORT
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 2018-2022 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 Agreement outlines for the forthcoming year:

- what we will have delivered by 30 June 2019 to demonstrate progress against 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 the reporting requirements against the Agreement
- how we will deliver our outputs: injury prevention, levy setting and collection, investment management, and claims management.

The Agreement outlines the 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 relative to our strategic intentions (as per our Statement of Intent) and reports on our progress 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**

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 ACC's 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 Service Agreement (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 costs 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 2018 to 30 June 2019. This Agreement revokes the Service Agreement for the period 1 July 2017 to 30 June 2018.

ACC's functions and duties

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

- 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 Accounts. 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 2018/19. The Ministry of Business, Innovation and Employment (the Ministry, acting as the administering agency responsible for Vote Labour Market) 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 2018/19.

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 our financial performance and an analysis of risks, critical issues, and opportunities arising from our performance to date.

Where our 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 targets 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
- a cost pressure submission supporting our proposal for funding of the Non-Earners' Account for the following four financial years.

The timeframes for quarterly reporting are:

TABLE 28: QUARTERLY REPORTING SCHEDULE

Quarterly performance report	Timeframe
Quarter 1 report	By 31 October 2018
Quarter 2 report	By 31 January 2019
Quarter 3 report	By 30 April 2019
Quarter 4 report	By 31 July 2019

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

Appendix 3 – Letters of expectations

Hon Iain Lees-Galloway

MP for Palmerston North
Minister for Workplace Relations and Safety
Minister of Immigration
Minister for ACC
Deputy Leader of the House

15 FEB 2018

Dame Paula Rebstock
Chair
Accident Compensation Corporation
PO Box 242
Wellington 6410

Dear Dame Paula

ANNUAL LETTER OF EXPECTATIONS

I am writing to convey my expectations of the Accident Compensation Corporation (ACC) more fully as noted in my letter to you in November 2017. As noted in my previous letter the Minister of Finance will write separately to communicate his expectations for all Crown Financial Institutions.

As noted in my previous letter our communications should be straightforward, and if you need to make contact at short notice, you should not hesitate to do so. I expect a "no surprises" approach to communication. 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 ACC.

Government priorities

The Government expects that ACC will function as a publically administered and delivered social insurance scheme distinct in character from a private insurance company. This means that the scheme will be claimant centric, will provide claimants the right services at the right time and is efficient and effective in doing so. It is my expectation that the Accident Compensation scheme (the scheme) provides fair compensation in return for a fair levy.

My key priorities are ensuring that claimants receive what they are entitled to in a timely and transparent manner; that rehabilitation achieves positive outcomes for claimants while ensuring effective utilisation of services; and that injury prevention is of paramount importance to avoid personal trauma and save costs to the scheme

Rehabilitation for claimants depends on receiving the right services at the right time. I expect ACC to use its data and improving analytical capability to support its case managers and health care providers to make good judgements about claimant needs. These judgements should ensure claimants are aware of entitlements available and allow for the setting of successful rehabilitation plans.

ACC is accountable to the Government and must play a role as a good partner across the state sector, but above all ACC is accountable to claimants and levy and tax payers. I expect

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ACC to be able to demonstrate that claimants are able to easily and consistently access what they are entitled to. I look forward to working with you on this shared goal this year and want to offer my support to ACC in achieving this.

Shaping Our Future

I am encouraged by ACC's commitment to develop a more claimant centric scheme through the delivery of Shaping Our Future and I acknowledge the significant amount of work that has already been undertaken on this programme. Improvements to case management, greater coordination with the Health sector and upgrading ACC's systems, data and analytical capability along with a corresponding focus on sound and principled data governance are crucial to improving both experience and outcomes for claimants.

I reference our recent discussion on a proposed transition from a Transformation Programme governance and delivery model to an Integrated Change Portfolio of Investments. I expect that the Board will not commit to any significant investments prior to Cabinet having the opportunity for a full discussion on Transformation progress to date and ACC's planned investments for the coming years.

I expect continuing high levels of transparency on the Integrated Change Portfolio of Investments. I expect the Board to provide me with briefings on progress against key milestones, recent or upcoming key decisions and updates on costs, benefits and risks. This should be provided a week prior to our monthly discussions until such time that I confirm that this will be relaxed to quarterly briefings, as part of the quarterly performance report.

ACC should consider that the ability to transform the quality and effectiveness of services is a shared goal and is consistent with the Government's long term expectations. Therefore, I also expect ACC to engage with my officials to provide advice where there are potential benefits to more efficiently and effectively deliver services to all New Zealanders, but legislation may be perceived to be a barrier.

Manifesto commitments

As you are aware I have submitted a bid for a place on the 2018 Legislation Programme. I expect the proposed Bill will address the Government's policy commitments, as outlined in the Labour Party Manifesto on Accident Compensation. This Bill will also provide an opportunity to revise the Accident Compensation Act 2001 (the Act) to ensure that it is transparent and accessible. As I have already indicated my priority areas for legislation are Manifesto commitments and structural change to reflect modern drafting practices and flexibility where appropriate.

In order to achieve these priorities I expect ACC to work collaboratively with Ministry of Business, Innovation and Employment (MBIE) as my principal policy advisors. This includes timely provision of cost estimates and operational impacts of policy considerations requested by MBIE. I expect this to include the level of perceived risk around any estimates. This is to ensure MBIE's advice to me is timely and the policy development is well considered.

Financial management

As a Crown Agent, I expect ACC to demonstrate responsible management of the Government's finances through a diligent focus on value for money in the services it delivers for New Zealanders.

ACC has seen an increasing Outstanding Claims Liability in the last three years, when policy and discount rate changes are held separate. While some of this increase is due to volume drivers and service improvements, claims have been continuing for longer and growth in care packages has been above target. Managing cost pressures on controllable, non-volume, drivers of claims experience while delivering high quality outcomes for clients is essential to maintaining a sustainable scheme.

Rehabilitation for claimants depends on receiving the right services at the right time, I expect ACC to use its data, and improving analytical capability, to support its case managers (and healthcare providers) to make good judgements around claimant needs. These judgements should ensure claimants are aware of entitlements available and allow for the setting of successful rehabilitation plans that demonstrate the efficient and effective utilisation of services.

I expect ACC to deliver on its performance targets and report a clear commentary on key drivers for any variances. I expect that a targeted set of strategic outcomes would be supported by leading and lagging operational metrics that support ACC's performance story.

Independent Review

I want to take this opportunity to recognise ACC, in conjunction with MBIE, the Ministry for Justice and FairWay, for the significant amount of work that has been done to implement the recommendations of the Independent Review of Acclaim Otago (Inc) Report into Accident Compensation Dispute Resolution (the Independent Review). I want to note the commitment ACC has demonstrated to improve the experience of claimants through the dispute resolution process.

However, I understand there are several outstanding recommendations that are yet to be implemented. This includes the establishment of a nationwide advocacy service and resolving issues around access to medical evidence. I acknowledge the complexities with these recommendations, however I would like to clarify my expectation that all the recommendations made by the Independent Review are implemented in a timely manner.

Injury prevention

Injury prevention is of paramount importance to the scheme to reduce the incidence and the impact injury has on the community. It is also essential to the effective financial management of the scheme. I expect ACC to work with a range of partners within and outside government to deliver a portfolio of injury prevention investments that improve the lives of New Zealanders.

A focus on injury prevention should be broader than simply a reduction to the levy. This should include a focus on long latency injuries where there may not be immediate financial returns on investment, for example occupational disease.

I also want to note that I look forward to receiving the joint response from ACC and WorkSafe by 30 March 2018 on the plan for an improved approach that will speed up the investment in injury prevention. As part of this consideration I am open to discussing the impact on the Service Agreement. I am committed to resolving this issue as quickly as possible. I have confidence that a collaborative approach between ACC and WorkSafe will allow effective long term investment in work-related injury prevention to improve workers' safety.

Cross Government Collaboration

ACC is an integral part of the social sector. It should endeavour to maximise cross-sector efficiency and effectiveness wherever possible and deliver joint initiatives as a good partner that is committed to the overall benefits of each initiative, even when those benefits are less tangible to ACC. The relationships ACC has across government with Health, Revenue and Social Development are key to capturing opportunities to improve cross government collaboration. I expect ACC to be a good partner across the state sector and always be cognisant of the effect on the system that ACC decisions can have.

The relationship between Health and ACC is essential to capture opportunities to improve the treatment provided to claimants and ACC should remain aware of the indirect impacts it can have in the Health sector. It is my expectation that ACC will work to achieve synergy between ACC funded services and other publicly funded medical and disability services. Any changes to ACC's approach to treatment purchasing should consider the impact on the wider health sector and improving access and outcomes for claimants should be the priority. I also expect ACC to ensure I am well briefed on any changes with consideration of the impacts included.

I expect ACC to be proactive in identifying and informing me, and in relevant cases my officials at MBIE and Treasury, where cross-sector work would benefit from Ministerial discussion, to ensure there is clear agreement on priorities with my colleagues and there is greater opportunity for coordination and delivery of benefits to New Zealanders.

I thank you in advance for your work in the coming year.

Yours sincerely

Hon Iain Lees-Galloway
Minister for ACC

Hon Grant Robertson

MP for Wellington Central
Minister of Finance
Minister for Sport and Recreation
Associate Minister for Arts, Culture and Heritage

-9 FEB 2018

Chief Executive's Office
12 FEB 2018

Dame Paula Rebstock
Chair
Accident Compensation Corporation
PO Box 242
WELLINGTON 6410

Dear Dame Paula

ANNUAL LETTER OF EXPECTATIONS

I am writing to convey my expectations of the investments function of the Accident Compensation Corporation (ACC) as it executes its business planning process for the forthcoming year. I note that you will also be receiving a Letter of Expectations relating to ACC's insurance function from the Minister for ACC. Any general expectations contained in that letter should also be applied to the investments function where relevant.

Expectations for All Crown Financial Institutions

Performance

- *Long-Term Performance*: A prime focus for Ministers is that the 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 entity 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. I expect that you will ensure full transparency of both external and internal investment management costs, particularly performance fees, and that you will ensure that internal performance incentives are aligned with the entity's objectives.

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Risk Management

- *Risk Profile:* In the past, particular emphasis has been placed on the CFI's financial returns performance. I expect to see a greater emphasis on the risk-adjusted performance of your entity in order to better reflect the investment strategies that are employed to deliver these returns. Furthermore, I expect to be consulted if you are pursuing any strategic changes that may materially alter the risk profile of your entity. I also ask that you ensure that appropriate emphasis is placed both on quantifiable investment risk as well as the more qualitative non-market risks that are inherent in investment management activity.

- *Complex Products and Activities*: The aggregate funds managed within the CFI portfolio continue to grow as a percentage of the Crown's balance sheet. Within this portfolio there has been an increase in the complexity of the investment activity being undertaken, including an increase in the use of derivative instruments. Consistent with expectations in previous years, it is my expectation that CFIs should use derivatives judiciously and that, where relevant, a strong case is made for their use relative to physical exposures. I expect transparency in the reporting of your derivative use and the way in which you measure and determine it to be 'judicious'. Furthermore, I expect that the CFIs will regularly assess the use of derivative instruments and the extent to which other complex investment activity is undertaken, particularly as market conditions and practices evolve, to ensure alignment with your legislative framework, including any specific approvals that have previously been issued from my office.

Relationship with the Crown

- *Flow of Information:* Of growing importance for the Crown is the need for adequate independent analysis of financial and other investment risks at an aggregate level across the CFI portfolio and, to a certain extent, across the broader Crown balance sheet. As such, the Crown is focused on establishing a deeper and more frequent flow of information from the CFIs to the Treasury. I expect all CFIs to support the Treasury in fulfilling the Crown's information requirements by providing all requested information and any additional resource that is needed to facilitate this strategy. I anticipate that the first phase of data collection and initial analysis will be completed within this fiscal year, however, ongoing compliance with the Crown's information requirements will be required in 2018/19 and beyond.

- *Board Relationship:* I consider it to be critical for the good stewardship of the CFIs that an open and effective dialogue is maintained between each CFI's Board and the Treasury. This should span all areas of potential shareholder interest, from strategic direction through to material operational matters, and it is my expectation that the relationships extend across the whole of the Board.

- *'No Surprises' Policy:* I expect you to maintain a "no surprises" policy and to inform me well in advance of any material or significant events, transactions and other issues that could be considered contentious or attract wide public interest, whether positive or negative.

Ethical Investment

- *Policy Review:* It is important to this Government that each of the CFIs maintains robust ethical investment policies. You have formulated a policy as part of your investment framework with alignment to your statutory mandate. My expectation is that you will regularly review and, where appropriate, update this policy to reflect both international and domestic progress in ethical investment practice.

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Expectations Specific to ACC

- *Investments Oversight:* To the extent that matters arise with regard to ACC's investments function, I expect you to engage with me and / or the Treasury in the first instance, with information copied to the Minister for ACC. I request that the management of the investments team discusses communications requirements with my office and the Treasury, to ensure that there is an effective line of sight in this regard.

Engagement

The Treasury is continuing its focus on engaging closely with entities to gain a better understanding of the strategic issues, risks and influences on entities' financial performance. In light of this continued emphasis on close engagement, I would like the Board to meet with the Treasury to discuss this Letter of Expectations at an appropriate time.

If you have any questions or require further clarification on any of my expectations, please contact Oliver Martin at the Treasury on 04 890 7284 in the first instance.

Yours sincerely

Hon Grant Robertson
Minister of Finance

cc: Mark Dossor
Chief Financial Officer
Accident Compensation Corporation
PO Box 242
WELLINGTON 6410

Appendix 4 – Other performance measures

Our statement of performance expectations by output presents our key and supporting performance measures. We have a set of other measures that we use to demonstrate the extent to which we are achieving our organisational health and capability intentions, and the performance of our assets.

Our organisational health and capability performance measures

TABLE 29: PERFORMANCE MEASURES – MAINTAIN A DIVERSE, HIGH-PERFORMING WORKFORCE EMPOWERED TO DELIVER GREAT CUSTOMER EXPERIENCES AND OUTCOMES

		Actual		Target			
Measure	Rationale	2016/17	Mar 2018	2018/19	2019/20	2020/21	2021/22
Key measure Employee net promoter score.	Equipping our staff with the right tools and capabilities enables them to be high-performing employees, proud of their organisation.	-17.0	+12.0	+16.0	+20.0	+25.0	+28.0
Supporting measure Proportion of ACC staff who identify as Māori.	We are committed to being an equal employment opportunity (EEO) employer through our organisation-wide EEO good employer practices relating to the recruitment and selection, development and retention of all staff. It is also important that our workforce reflects the community we serve.	New measure	9%	10%	12%	14%	15%
Supporting measure Proportion of ACC staff who identify as having a disability.		New measure	7%	8%	10%	12%	14%
Key measure Total recordable injury frequency rate.	We keep people safe, healthy and well, enabling them to arrive home in the same mental and physical condition that they were in when they left for work.	New measure	7.8	9.5	9.0	8.5	8.0
Supporting measure Lost-time injury frequency rate.[15]		New measure	1.5	1.4	1.3	1.2	1.1

15. *The lost-time injury frequency rate is the number of lost-time incidents per 1 million hours worked.*

TABLE 30: PERFORMANCE MEASURE – IMPROVE THE WAY WE USE, PROTECT AND SHARE INFORMATION

		Actual		Target			
Measure	Rationale	2016/17	Mar 2018	2018/19	2019/20	2020/21	2021/22
Key measure The number of category 3, 4 and 5 privacy breaches and near misses (as defined by the Government Chief Privacy Officer's privacy matrix).	We deal with confidential and sensitive information for a large number of people and entities. Our customers expect us to protect this information and maintain our progress in reducing privacy breaches.	1	0	<5 per year No category 5 privacy breaches	<5 per year No category 5 privacy breaches	<5 per year No category 5 privacy breaches	<5 per year No category 5 privacy breaches

TABLE 31: PERFORMANCE MEASURE – SUPPORT ACC BUSINESS OUTCOMES WITH MODERN, RELIABLE AND SECURE INFORMATION TECHNOLOGY

		Actual		Target			
Measure	Rationale	2016/17	Mar 2018	2018/19	2019/20	2020/21	2021/22
Key measure Overall operational system availability.	Our systems need to be available so that we can deliver the services our customers expect.	99.9%	99.8%	99.5%	99.5%	99.5%	99.5%

Asset performance measures

Cabinet Office Circular CO(15)5 introduced expectations for agencies to report on investment performance. In particular, it noted:

- Paragraph 61: Agencies must report on relevant asset performance indicators in their Annual Reports
- Paragraph 62: Agencies must capture and use in internal management and decision-making processes, relevant indicators of past and projected asset performance, such as asset utilisation, condition and fitness for purpose.

In May 2016, Treasury published the Annual Report Guidance for Crown Entities. The Guidance is Treasury's interpretation of CO(15)5. It establishes new, mandatory requirements for the reporting of asset performance.

To address this requirement we selected the following asset performance measures aligned with our two largest asset portfolios: property; and information and communications technology (ICT). We are required to report our performance targets for the next four years in our Service Agreement and actual performance results in our future Annual Reports.

TABLE 32: ASSET PERFORMANCE MEASURES

Measure	Rationale	Actual		Target			
		2016/17	Mar 2018	2018/19	2019/20	2020/21	2021/22
ICT Utilisation: Average claims management system transaction time.	Measuring the time that it takes to complete a claim management transaction is a good indicator of whether our ICT asset portfolio is reaching maximum capacity.	372ms	397ms	≤500ms	≤475ms	≤450ms	≤400ms
ICT Condition: Percentage of time key applications and network were able to perform required functions.	This measure demonstrates the reliability, and therefore condition, of the underlying assets.	99.9%	99.8%	99.5%	99.5%	99.5%	99.5%
ICT Functionality: Total operational ICT spend per full-time equivalent (FTE).	Measuring ICT cost per FTE demonstrates the efficiency of our ICT expenditure and the value for money achieved in the delivery of functionality, and is able to be compared with that of peer groups to ensure that it is appropriate.	$18,112	$19,157	$24,300	$24,300	$24,300	$24,300
Property Utilisation: Square metres (m^2) of leased area per FTE.	This measure is applied across the entire leased property portfolio. Performance can be easily compared year on year and against the Government Property Group's guidelines.	15.7m^2 per FTE	17.1m^2 per FTE	12-16m^2 per FTE	12-16m^2 per FTE	12-16m^2 per FTE	12-16m^2 per FTE
Property Condition: Percentage of total leased area with a current code compliance certificate/building warrant of fitness.	This measure offers an independently assessed perspective of property condition. It is also easy to apply consistently to the entire leased property portfolio.	100%	100%	100%	100%	100%	100%
Property Functionality: Percentage of total leased area that meets or exceeds the ACC security standards.	We have ACC security standards in line with the WorkSafe Building Security Policy, October 2014 and regularly assess our total leased property portfolio against these standards.	100%	100%	100%	100%	100%	100%

Appendix 5 – Investment statement

The Government's expectations

The Government's expectations for ACC's investment function are outlined in the letter of expectations to ACC from the Minister of Finance. ACC will respond to the expectations applicable to all Crown Financial Institutions. These expectations are represented by four themes:

Performance:

- long-term performance – place emphasis on longer term returns and review the appropriateness of investment strategies where the longer-term return is persistently lower than the performance objective. Deliver returns in excess of benchmarks after investment management fees and other operational costs where active management or other value-adding strategies are employed
- investment management expenses – ensure that the internal and external investment management costs (particularly performance fees) incurred in implementing the investment strategy are fully transparent and appropriate in the context of managing Crown assets. Ensure that internal performance incentives are aligned with the entity's objectives.

Risk management:

- risk profile – place a greater emphasis on the risk-adjusted performance of ACC in order to better reflect the differing investment strategies that are employed to deliver returns. Consult the Minister of Finance if we pursue any strategic changes that may materially alter the risk profile of ACC. Place appropriate emphasis on both quantifiable investment risk and the more qualitative non-market risks that are inherent in investment management activity
- complex products and activities – use derivatives judiciously and, where relevant, make strong cases for their use relative to physical exposure. Ensure transparency in the reporting of derivative use and the extent to which ACC's use is measured and determined to be judicious. Complete regular assessments of the use of derivative instruments and the extent to which other complex investment activity is undertaken, particularly as market conditions and practices evolve, to ensure alignment with ACC's legislative framework.

Relationship with the Crown:

- flow of information – continue to engage with Treasury in support of the Crown's broader information requirements, including through the provision of all requested information and additional resources as required
- Board relationship – maintain an open and effective dialogue between the Board and Treasury, spanning all areas of potential shareholder interest
- no-surprises policy – maintain a no-surprises policy and inform the Minister of Finance well in advance of any material or significant events, transactions or other issues that could be considered contentious or attract wide public interest, whether positive or negative.

Ethical investment:

- policy review – maintain robust ethical investment policies through the formulation of an ethical investment policy as part of the investment framework, aligned with ACC's statutory mandate. Regularly review and update this policy to reflect progress in ethical investment practices.

ACC will also respond to the Minister of Finance's expectation specific to ACC:

- investments oversight – engage with the Minister of Finance and Treasury as matters arise with regard to ACC's investment function. Discuss communication requirements with the Minister of Finance's office and Treasury to ensure that there is an effective line of sight.

Investment context

The money we need to provide our services comes from levies on people's earnings, businesses' payrolls, petrol and fees from vehicle licensing, and the Government. The money is collected into one of the five ACC Accounts, with each Account covering a specific group of injuries.

Until 1999 the ACC operated on a 'pay-as-you-go' basis, collecting only enough levies each year to cover the cost of claims for that particular year. In 1999 the Government decided to change the Scheme to a fully funded way of operating. That means we now collect enough money during each levy year to cover the full lifetime costs of every claim that occurs in that year.

Some people who are injured need ACC's help for 30 years or more, so significant reserves must be built up to fund these future costs. This money is invested and earns returns that help to pay the costs of claims. While these claims are expected to far exceed the current value of our investments, we expect to be able to meet the future costs of these claims out of our investments if our long-term investment returns exceed inflation by at least 2% per annum. In order to reduce the risk that future levy payers may have to pay for injuries that have occurred in the past, we aim to protect ACC against the risk that investment returns could be lower than this by building an investment portfolio that is both likely to increase in value if real interest rates decline and unlikely to decline significantly in any one year.

As at 31 March 2018, ACC's investment portfolio was worth $38.8 billion.

Purpose

ACC's investment portfolio exists to ensure that we can meet the future costs of claims as a result of injuries that have already occurred without the need for any catch-up contributions from future levy payers. 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. Interest rate declines mean that we need to put aside more money in the present to fund every dollar of future claim costs. Accordingly, if not offset by strong investment returns, a decline in interest rates may create a need for levy increases.

Governance

The ACC Board Investment Committee is responsible for ensuring the development of, and approving, our investment strategy, policies and guidelines, and for approving the appointment of any fund manager or investment consultant. The Investment Committee reports to the full Board on a regular basis.

The 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 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 Investment Committee ensures that investment decisions are made in a manner consistent with our 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 make
- 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.

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

- approval of asset allocation benchmarks and 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 the strategic asset allocation and 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
- appointment of external fund managers or custodians
- approval of any investment transactions that fall outside the limits and controls specified in the Investment Guidelines.

Risk management

We manage risk through our Investment Guidelines, and these risks are reported to the Investment Committee. Our Investment Guidelines limit how much risk we can take by placing constraints on how ACC's investments may be managed. We employ a number of rules to govern the types of investment we can make, the way in which we invest and the way in which we measure and manage performance.

We use credit limits, exposure limits and market risk limits to manage the risks of dealing with market counterparties, trading in and across various asset classes and sectors, and the size and amount of leverage across our investments.

The ACC Investments Code of Conduct governs 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 us to consider the ethical implications of our investments as well as our fiduciary responsibilities.

We seek to avoid investing in entities involved in activities that would be considered unethical by a substantial majority of the New Zealand public. We use New Zealand law and international conventions such as the United Nations Global Compact and the United Nations Principles for Responsible Investment (UN PRI) as a reflection of the principles widely held by the New Zealand public. We also aim to avoid investing in entities that exhibit corporate behaviour that seriously breaches ethical/responsible investing standards.

The ACC Board provides overall guidance as to the types of activity that are considered unethical. In providing guidance for ACC's day-to-day investing, the ACC Board Investment Committee has highlighted activities that should be part of ACC's ethical investment considerations: tobacco companies, those involved with the development and/or production of anti-personnel mines, cluster munitions and nuclear explosive devices, and those involved with the processing of whale meat.

We note that distinguishing between companies in legitimate businesses and those acting unethically is inherently subjective. By way of example, we believe that investing in supermarket companies that derive only a small proportion of their income from the sale of tobacco products may not go against our ethical considerations and that a substantial majority of the New Zealand public would not view this as unethical investing. We seek to address any subjectivity that may arise in an open and transparent manner, to the extent commercially possible, by utilising a number of sources and processes.

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.

Management strategy

For our internal funds management operation, we aim for continued investment success by employing the best investment professionals that we can and encouraging them to manage ACC's investment portfolios in an environment that:

- emphasises individual accountability, but also encourages individuals to work together as a team
- encourages open discussion and debate, without requiring team members to buy in to an artificial 'consensus'
- encourages our investment professionals to think about risk as well as long-run returns
- empowers our investment professionals to make decisions that could add real value for ACC, whilst recognising that some misjudgement is inevitable.

Our investment team is focused on ensuring that ACC's infrastructure, processes and controls are fit for purpose, and that our strategy delivers outcomes aligned with our vision. We will:

- build trust and empower all staff to show curiosity and innovation
- replace manual touch points with automated, scalable and standardised processes
- embed sustainable and mature frameworks with ownership of risks and independent oversight
- deliver an effective and efficient control environment to provide accurate and timely information.

Our investment objective

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

- continue to review strategic asset allocations to ensure that the benchmark asset allocations provide 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.

Investment strategy

We do not currently anticipate that our next review of strategic asset allocation will result in any significant changes to our overall allocation between investment markets.

We intend to continue actively managing all of our investment portfolios. The majority of our investments are actively managed by our own investment staff, while about 19% of our investments are managed by external fund managers. Changes in the proportion of funds managed internally versus externally would most likely be affected by any decisions to change the allocation of funds between Australasia and global markets, as ACC manages most of its Australasian funds internally and uses external fund managers for the majority of its global investments.

We intend to increase selectively the resourcing of the investment team during 2018/19. In particular, we will continue to expand the teams responsible for direct (unlisted) investments and the internally managed global equity portfolio.

We are working on initiatives that could reduce the amount of credit exposure that ACC incurs as a result of its use of derivative contracts.

We intend to hold our investment costs at a similarly low percentage of the portfolio value to that we achieved in 2017/18.

Measuring performance

Our investment performance should ultimately be evaluated by looking at the extent to which ACC's investments have achieved the objectives of enhancing returns and reducing risk, and how performance compares with global investment markets' performance.

Like most institutional investors, we split our investment decision-making into layers. While it is important to evaluate our 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 decisions 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 could be regarded as being due more to luck than skill. But with enough time and enough distinct investment decisions to consider, we should expect that any unpredictable positive or negative results will average out. Therefore investment performance over a longer timeframe is more 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 the asset allocation benchmarks on both an annual and an interim basis. Setting these asset allocation benchmarks involves a trade-off between risk and expected long-term 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 our 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 income.

For these reasons, our performance in setting asset allocation benchmarks is best evaluated by studying performance over several years, rather than just assessing performance in relation to a single measure in 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 the Scheme 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 results 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 in a timeframe of at least three years. We measure the performance of each portfolio against a relevant benchmark and measure our overall investment return against a composite benchmark.

Investment costs are not subject to much uncertainty, so it is meaningful to measure our performance on investment costs on a year-by-year basis. We measure our costs using a standard measure – the Management Expense Ratio – which includes all the investment costs that are not directly deducted from our reported investment returns.

Glossary of terms

ACC Scheme
New Zealand's no-fault accident insurance scheme that provides cover to all New Zealanders and visitors to our country.

Accident Compensation Act 2001 (AC Act)
The major piece of legislation under which ACC is governed.

Business customer
A business that pays a levy under the Scheme.

Client
A person who makes a claim under the Scheme.

Consumer price index
A measure of the price change of goods and services purchased by private New Zealand households.

Crown entity
An organisation in which the Government has a controlling interest.

Customer
A client, provider or business customer.

Durable-return-to-work rate
A measure of the percentage of clients who have returned to work and have remained at work.

Earners' Account
The Account for injuries that occur outside work (e.g. at home or playing sport).

Entitlement claim
A claim that has received additional support such as weekly compensation or social or vocational rehabilitation for a covered injury, as well as any funded medical treatment required.

Full-time equivalent
The hours worked by one employee on a full-time basis, generally considered to be 35-40 hours per week.

Gradual process claims
Claims as a result of injuries that have occurred due to prolonged exposure in the workplace to conditions that result in some form of harm (e.g. hearing loss).

Labour cost index
A measure of the increase cost of salaries and wages paid to workers, commonly expressed as an annual percentage.

Levies
Amounts charged, separate from general taxation, and used to cover the cost of injuries caused by an accident within the Motor Vehicle, Earners' and Work Accounts.

Long Term Claim Pool
Clients who have been received weekly compensation payments for more than 365 days.

Motor Vehicle Account
The Account for all road-related injuries.

Net promoter score
A measure of how likely our employees are to recommend ACC as a place to work. Respondents rate themselves on an 11-point scale, with 0 being 'not at all likely' and 10 being 'very likely'. The net promoter score is the proportion of 'promoter' respondents (score 9-10) less the proportion of 'detractor' respondents (score 0-6). Scores range from −100 to +100.

Net trust score
A measure of the extent to which respondents have trust and confidence in ACC on a 0-10 scale grouped into four categories (low trust and confidence, medium trust and confidence, high trust and confidence, and don't know/refused). The net trust score is the proportion of respondents with high trust and confidence (score 9-10) less the proportion of respondents with low trust and confidence (score 0-6). Scores range from -100 to +100.

Non-Earners' Account
The Account for people not in the workforce, such as children and retirees.

Outstanding claims liability
An estimate of the present value of expected future payments on all existing ACC claims.

Pay-as-you-go basis
Funding the costs of injuries as the costs are incurred.

Provider
A person or organisation providing a treatment or rehabilitation service to a client (eg a GP or physiotherapist).

Rate of serious injury
The number of new serious injury and fatal claims per 100,000 new registered claims.

Return on investment
The return or benefit obtained from an investment over and above the original investment, commonly expressed as a percentage or ratio.

Shaping Our Future
Our overarching strategy to look at how we operate, from our technology to how we train our people, while putting the customer at the centre of everything we do.

Statement of Intent
A statutory document that covers a four-year period and outlines our medium-term strategic intentions.

Strategic intentions
The areas that ACC has identified as needing the most focus during the period of the Statement of Intent (2018-2022).

Superimposed inflation
Increase in costs over and above baseline inflation.

Transformation Programme
A series of projects that were focused on improving our systems, processes and employee capabilities.

Treatment Injury Account
The Account for injuries caused by treatment.

Weekly compensation
Payments to a client who cannot work because of an injury, based on 80% of weekly income (capped) before the injury occurred.

Whāia Te Tika
Our strategy to pursue what is right for Māori and deliver on our aspirations.

Work Account
The Account for injuries that occur in the workplace.

Directory

Corporate office

information@acc.co.nz	+64 4 816 7400	PO Box 242, Te Whanga-nui-a-Tara/Wellington 6140

Accident Compensation Corporation
Level 2, Justice Centre
19 Aitken Street
Te Whanga-nui-a-Tara/Wellington 6011

Claims

claims@acc.co.nz	PO Box 242, Te Whanga-nui-a-Tara/Wellington 6140	
Claims helpline	0800 101 996	
Treatment Injury Centre	0800 735 566	PO Box 430, Ōtepoti/Dunedin 9054
Sensitive claims	0800 735 566	*sensitiveclaims@acc.co.nz* PO Box 1426, Te Whanga-nui-a-Tara/Wellington 6140
Accidental death	0800 222 075	
Deaf community fax	0800 332 354	*deaf@acc.co.nz*
Overseas callers	+64 7 848 7400	

Business and levies

business@acc.co.nz	PO Box 795, Te Whanga-nui-a-Tara/Wellington 6140	
Business Service Centre	0800 222 776	
Employers	0800 222 776	
Self-employed	0508 426 837	
Agents and advisors	0800 222 991	
Overseas callers	+64 4 816 7880	
Debt management	0800 729 538	PO Box 3248, Te Whanga-nui-a-Tara/Wellington 6140

Providers

providerhelp@acc.co.nz	PO Box 90341, Tāmaki-makau-rau/Auckland 1142
Provider helpline	0800 222 070

Injury prevention

information@acc.co.nz	PO Box 242, Te Whanga-nui-a-Tara/Wellington 6140
Publications	0800 844 657
ACC injury prevention unit	+64 4 816 7400

Injury management (for employers)

returntowork@acc.co.nz	Private Bag 9000, Heretaunga/Hastings 4156
Injury management team	0800 101 996

Concerns and complaints

customerfeedback@acc.co.nz	Freepost 264, PO Box 892, Kirikiriroa/Hamilton 3240
Customer resolution	0800 650 222
Overseas callers	+64 7 848 7403

Preventing fraud

collection.collation@acc.co.nz	
Preventing fraud	0508 2223 7283

Media

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